The American Individual Enterprise System

VOLUME II

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The American Individual Enterprise System

ITS NATURE, EVOLUTION, AND FUTURE

VOLUME II

by

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VOLUME TWO

XII

COMPETITION AND MONOPOLY

IN the early days of economic discussion the terms "competition" and "monopoly" were about as clear-cut as any economic terms ever can be, and when they were used it was simple to understand what the author or speaker had in mind.

The public has inherited a simple conception of competition and monopoly: competition means no control of prices by one producer or seller or any combination of them; monopoly means such control.

That situation still is largely true insofar as the public at large is concerned. Thus if you ask the man in the street what competition means, he can tell you without difficulty that it is the opposite of monopoly—that there are a number of producers or sellers of an article and the price is determined by the market place rather than by the producer or seller. To the ordinary person, in other words, competition means that price is not determined by a single producer, or by all the producers of a given article working in concert; monopoly means that price is controlled by a single producer, or by the various producers acting as a unit.

Too simple a statement, perhaps, but many modern writers have overrefined definitions of competition and monopoly.

Such a conception of the difference between competition and monopoly, it may be granted, leaves much to be desired. Nevertheless, for the purpose of understanding the monopoly problem of the United States today, it is possible that this vague concept of the general public is at least as valuable, and as valid, as the concept which has been developed by many of the recent writers on this subject. This is true—and this is not said for any derogatory purpose—because the concept as developed by these modern writers is so refined and so technical that it does not fit the realities of the business world.

Their "perfect competition" does not exist, and so they see the whole economic field

More specifically, those writers have defined competition—"perfect competition," they call it—in such a way that in actual life it cannot, or in any event does not, exist. The whole economic field is thus thrown into the category of monopoly. Since on its face such an expansion is too extreme to carry conviction, those writers devise a

occupied by monopoly in various degrees.

whole set of new terms to indicate various degrees of monopoly. For those who are trying sincerely to think their way through the problem of competition and monopoly, such new terms offer little or no assistance. As a first step in the analysis of this problem, therefore, it is well to get the terms clear and to make certain that they are defined in a way which is an aid in appraising the current situation.

THE MEANING OF "COMPETITION"

First, let us look at the term "competition." Under what conditions may it properly be said that competition exists?

There is competition when independent sellers offer identical goods for sale.

There is competition when two or more independent persons or organizations are offering identical goods or services for sale. Suppose, for example, that there are two grocery stores in a particular locality which carry the same line of products. Now clearly these two stores would be competitors under any reasonable definition of the term, provided, of course, that they are owned by different persons and there is no agreement or "understanding" between the owners. And this would still be true even though the prices charged by the two stores are identical and even though they give the same general service as to delivery, credit, etc.

It is independence of ownership and absence of agreement between owners that make sellers of the same goods or services competitors.

If this is true—if there is competition when two sellers offer identical goods at the same prices and give the same nominal special inducements in the way of service and credit terms—what is it specifically that distinguishes competition? To answer this let us go back to the beginning again. Why did we assume in the first place that the two stores are competitors? We assumed it because the ownership of each is independent and there is no agreement or "understanding" between the owners. Now why does such independence of ownership lead us to assume that there is competition between the two stores? If we can answer that question in a way which leaves no loopholes, we obviously shall be delineating just what it is which distinguishes competition from monopoly.

The answer to this question is not at all difficult.

For each is free to try to attract more customers by prices, service, credit, or otherwise.

What this independence of ownership means in practice, and the reason it is all-important from the point of view of competition, is that because of it each of the stores is free at any time, to the maximum of its ability, to try to attract more customers. It may do this through reducing prices, through offering better services, through granting more generous credit terms, through making its displays more attractive, or through any of a dozen other ways that might attract the public.

If prices and services are alike, there may still be competition, if each seller remains free to vary them as his own interests may permit or suggest.

But does not the fact that the two stores charge the same prices and offer the same services prove that, although in theory they are competitors, in practice they are nothing of the kind? Not at all. On the contrary, it may mean the exact opposite. The fact that there is nothing to choose between the two as to prices and services means simply one of two things: (1) that both of them have gone as far as they can in the way of prices and services and still have enough left over at the end of the week, or month, or year, to make it worth while to stay in business; or, (2) that one of the stores has reached this position and the other, even if it could afford to go a bit further, decides for some reason that it is not worth while to do so. This reason may be that it already has all the business it can handle successfully without a substantial further investment, or that it believes its aggregate profit will be larger if it just holds the present volume of business than it would be if it attracted a larger volume through lower prices or improved services; or there may be various other reasons.

In either of these situations it is evident that there is competition; for competition does not mean, and only a most distorted concept can make it mean, that every seller must continue to lower prices and increase his services until he reaches that point where it is just barely worth his while to stay in business. Competition means simply (and this is the crucial point) that there is more than one person offering a good or service for sale and the terms, price, and conditions at which such good or service is offered are determined and controlled solely by the seller acting independently of other sellers. More briefly stated, there is competition when there is more than one seller and each is free to determine the price and conditions at which he will

How a seller chooses to exercise his freedom, as long as he is independent, does not furnish a test of competition.

offer his goods or services. Whether, in the exercise of this freedom, a particular seller undercuts his competitor's prices or just meets them, whether he offers better or just identical service, whether he grants more liberal or just the same credit terms, etc., is not a test of the existence of competition. They are mere manifestations of various forms which competition may or may not take. The only true test, and the basic distinguishing feature of competition, is whether *there are at least two suppliers of a market who make independent decisions on the prices and conditions at which they will offer their goods or services.*

The Meaning of "Monopoly"

Monopoly is the opposite of competition.

There is monopoly whenever there is only one seller of a commodity or service, or if there are more they act together in fixing the price or conditions of sale.

Before following through the implications of this elementary concept, let us turn to the question of what constitutes monopoly. This is comparatively simple. Since competition and monopoly cover the whole field and all business falls under one head or the other, we may define monopoly as the opposite of competition. In other words, inasmuch as there is competition when there are two or more sellers who independently determine the prices and conditions at which they will offer their goods or services, then it follows that we have a monopoly when there are not two or more sellers who make such independent decisions. In positive terms this means that there is monopoly whenever there is only one seller of a given article or service, or if there are more they act as a unit, rather than independently, in the determination of the price and conditions at which they will offer the good or service.

The "Monopoly Problem"

Is it monopoly itself, or something related to monopoly, that creates a "monopoly problem"?

With this basic distinction between competition and monopoly clearly in mind, we now are in a position to examine whether it is monopoly itself, or something that propaganda and careless analysis confuse with monopoly, which is contrary to the public welfare and which in reality constitutes our "monopoly problem."

As a means of getting this question into focus, let us consider some simple cases where there is only one seller

who determines the price at which his product will be offered to the public. A good example is the author of a book. By copyrighting his manuscript, an author establishes his right to exercise complete control over the terms at which it will be offered to the public, and no one can take his manuscript or any of its contents and offer it to the public without the author's permission. Or take the case of a professional singer. The thing such a person has to sell is service—service in the form of entertainment. Although there are tens of thousands of other persons who can sing, none of them can exactly duplicate the voice of any other. Each one, therefore, can decide the terms and conditions at which he will perform this service.

The author of a book has a monopoly through his copyright.

A professional singer has a monopoly in service through his distinctive talent.

These two instances, in other words, are perfect examples of complete monopolies: that of the author, resting on a legal basis, and that of the singer, resting upon the fact that no one else can offer an identical item for sale. In both instances, the monopolist is in a position to set any price he prefers. The author can refuse to sell his book for less than $50 a copy, and the singer can refuse to perform for less than $1,000 a song. Of course, no one may be willing to pay such prices, but that is beside the point. The important fact is that these sellers have complete ability to set the price at which the market will be supplied with their products, and that ability means that they have a monopoly.

As monopolists, they may fix the prices at which they offer what they have to sell.

Now these, of course, are simple examples and are not of the type that we ordinarily have in mind when we think of monopolies. But just because of their simplicity they can be visualized free of all the ramifications of a complicated monopoly situation and hence serve perfectly to bring out what is perhaps the basic point of all in a sound appraisal of the problem of competition and monopoly.

This point is that it is not the existence of monopoly itself which is contrary to public interest. That is evident, of course, if one looks at our laws. Since the beginning of our nation, we have made legal provision for the creation of monopolies through our patent and copyright laws. And this has been done specifically for the purpose of giving those who have a patentable idea or an item which

Our patent and copyright laws, from the start, were intended to create monopolies.

Thus persons were encouraged to use their creative talents, and the public was benefited by such use.

is subject to copyright the ability to control the price and conditions in marketing their product. The thought has been that in this way inventors, designers, and writers would be encouraged to use their talents, and that on balance the public would gain. And unquestionably it has worked out that way in practice. Because there has been the possibility of having a monopoly which would give them a better position to profit from their work, literally tens of thousands of persons are constantly on the search for new ideas which they hope to patent or copyright. Furthermore, because of this protection, there is a disclosure of many "trade secrets" which otherwise would be carefully guarded and hence not become a part of that vast body of common knowledge upon which further progress is built.

What is really contrary to public welfare is not monopoly itself, but conspiracy for restraint of trade.

What is it, then, which goes under the name monopoly that is contrary to public welfare? It is conspiracy in restraint of trade, including under the term "conspiracy" all contracts and combinations entered into for the purpose of restraining trade. Such conspiracies, as will be explained later in this discussion, may arise in any of several ways and may take any of several forms. The objective in all cases, however, is the same; namely, to enable the conspirators so to control the supply of a particular good or service that they can fix a price which will yield them the largest possible net profit. A price fixed at such a point has always been known as a "monopoly price," and that probably is the principal reason for the widespread confusion between conspiracies in restraint of trade and monopolies, and the common failure to recognize that the so-called "monopoly problem" has its economic and social significance in conspiracies in restraint of trade.

These are conspiracies so to control the supply of some good or service as to fix a price that will yield the members the largest possible profit.

If the system is kept free of these conspiracies, there will be no monopoly problem.

If we are to solve the monopoly problem, therefore, it is with these conspiracies that we must deal. If all such conspiracies can be eliminated and our economic system kept free of them, there will be no monopoly problem. There will be no monopoly problem because, although we shall still have many monopolies based upon patents, copyrights, and special franchises, we shall have no monopolies based upon conspiracies, and it is only the latter which are contrary to public welfare.

To make this fact clear, we

The purpose of the following pages is to throw this

fact into clear perspective. We begin by discussing the function of competition, as seen in its effect on prices and on productive efficiency. Following that is an analysis of the behavior of monopolies and their effect on prices and productive efficiency. Next is a résumé of some of the methods used by conspiracies in restraint of trade which have existed in this country. Then there is a summary of the legal attempts we have made to prevent such conspiracies. The final section is devoted to a discussion of the problem as it exists today and the policy which should be pursued in order to assure its successful solution.

discuss the function of competition, the behavior of monopolies, the methods used in conspiracies to restrain trade, and the legal attempts to prevent them.

The Function of Competition

Freedom of competition is truly one of the basic principles underlying the Individual Enterprise System. By this is meant that without such freedom it is inconceivable that the enterprise system could long exist, and as this freedom is curtailed, through either government action or conspiracies in restraint of trade, the public loses its greatest assurance that its interest will be protected. As a background against which to consider the behavior of monopolies and conspiracies in restraint of trade, therefore, let us look in some detail at just how competition affects prices and productive efficiency.

Freedom of competition is the bulwark of the Individual Enterprise System.

We may well begin such an analysis by returning to the example used earlier: two grocery stores in a particular locality. There we assumed, for the purpose of bringing out the basic ingredient of competition, that the two stores charge the same prices, offer the same quality of service, grant the same credit terms, etc. But in practice, of course, this is never exactly true. In general, prices may be about the same in two stores, but there almost certainly will be differences on individual items. And the service as between the two, although theoretically it may be the same, in practice will certainly differ. The owner, or clerks, or delivery boys, in one store will be more friendly and more courteous than in the other. Or the manner in which the goods are displayed will be more pleasing and make selection easier in one store than in the other. And so it will go throughout the entire relationship of the stores

The operation of two grocery stores in the same locality shows how every phase of the relation between buyer and seller offers a potential field of competition.

This is the reason why both stores can stay in existence.

with their customers; for there is at least a potential field of competition in every single phase of the contact between buyer and seller, and that is why both can stay in existence. In other words, because of the differences in tastes between customers what pleases some will have no appeal to others and vice versa.

In such a competitive situation a seller cannot continuously take advantage of a buyer.

That is the first point to keep in mind in appraising a competitive situation. To repeat, there may be competition in prices, in quality, in salesmanship, in service, in credit, in courtesy, in packaging—in brief, in any phase which may possibly influence a potential buyer in choosing what and where to buy. And as long as there is this competition it is impossible for a seller, at least more than temporarily, to take advantage of a buyer. If his prices are higher than those of another seller of merchandise of the same quality, or if the service he renders is not so satisfactory, the buyer will simply transfer his trade to that seller who offers better bargains and gives better service.

Under competitive conditions, the seller's market is never secure.

The second major point to remember in connection with competition is that under competitive conditions the market is never secure for a seller. Even though through sound buying, pricing, and distributing policies a store is able to build a substantial trade, its worries are not over. This is because when there is freedom of competition another store may be opened at any time and through still more efficient operations take the customers away.

A producer's market, especially, may vanish almost overnight.

This aspect of competition is especially important in the field of production. An organization may work for years developing a process of producing a given article, only to have everything it has done become obsolete almost overnight by someone else's discovery of a still more efficient method of producing the same article. And this is not something which just may happen, or is a remote possibility. It is a daily occurrence in our industrial organization. No exact figures are available on the monetary loss to investors because of this element of obsolescence, but unquestionably it runs to many millions of dollars a year.

Competition serves the public in holding down costs of

Those are the two principal aspects of competition from the point of view of operating business. Now let us look at competition briefly from the viewpoint of public

welfare. As was stated in an earlier chapter, competition serves the public in the following ways:

production and distribution, also profits; in directing use of productive resources to goods and services the people want; in widening the choice offered; and in improving quality.

1. It tends to assure that goods and services will be produced and distributed at the lowest possible cost.

2. It tends to assure that profits will be held to the minimum. Temporarily one concern, through discovering some means of reducing costs, may make exceptionally large profits, but such an advantage is certain to be short-lived as a result of other concerns' adopting the same or better policies or practices.

3. It tends to assure that the energy and raw materials and productive capacity of the nation will be used for providing these goods and services which the public wants, and in proportion to the relative demands of the public.

4. It tends to assure that the factors of production as a whole will be paid, through wages, rent, interest, or profits, in harmony with the public's estimate of the contribution they make.

Competition assures freedom of opportunity to enter business.

And it assures continuous progress and a rising scale of living.

5. It assures that a constant effort will be made to widen the choice of goods and services offered the public.

6. It assures that a constant effort will be made to improve the attractiveness of goods offered for sale. Such improvement may be in quality, in price, in packaging, in supplementary service, or in any other respect potentially influencing public choice.

7. It assures freedom of opportunity. Anyone at any time, if he has the necessary capital, can enter any line of business he desires.

8. It assures free and continuous progress and a gradually improving scale of living, through the production of more and more kinds of goods, of better and better quality, at prices which a larger and larger proportion of the public can afford to pay.

It is a regulator of prices, an incentive to productive efficiency, a guarantor of fulfillment of public wants, and a protector of freedom of opportunity.

To sum this all up, from the point of view of public welfare, competition serves as a regulator and reducer of prices, as an incentive to improved production efficiency, as a guarantor that we shall get what we want, and as a protector of the freedom of opportunity.

Monopoly Power and Monopoly Prices

As we have seen, under free competition there is a tendency for those things to be produced which the public

Under free competition the factors of production will flow into fields where demand shows profitable prospects; but this flow may be prevented by conspiracies in restraint of trade.

desires and in quantity according to the backing up of these desires by demand in the market place. This means that the various factors of production, land, labor, capital, and enterprise will be allocated in the economic system in that way which will most nearly satisfy the relative demands of the public. Under conditions of monopoly, however, or more accurately, when there is a conspiracy in restraint of trade, this equitable distribution of the factors of production does not necessarily take place. With freedom of competition, the factors of production will "flow" to any field where the demand results in an unusual rate of profits; but when there is a conspiracy in restraint of trade this "flow" may be prevented by those producers already in the field in order to protect the high rate of profit resulting from the monopoly price they have established.

Monopolistic Withholding of Supply

In a monopolistic situation, the maximum profit is likely to be found in selling a moderate quantity at a high price, and conspiracies operate to this end.

To make clear how this works in theory—in actual practice it is never so simple—we may use a hypothetical example. Suppose there is a firm, or group of firms acting as a unit, which makes a particular type of mechanical pocket lighter at a total production cost of $1 each. (For simplicity we ignore the customary fact that, as production increases, the cost per item declines.) Suppose further that an aggregate net profit of $25,000 will yield a return on the capital invested that is at least equal to the going rate; that is, to the average of what an investor could get if he put his funds in other concerns. And suppose finally that the demand for this lighter is "elastic"; that the lower the price the more the public will buy. Then we find the situation as to costs, sales, and profit shown in the accompanying table.

Price	Number public will buy	Total receipts	Total cost of production ($1 each)	Net profit
$1.00	150,000	$150,000	$150,000	......
$1.25	100,000	$125,000	$100,000	$25,000
$1.50	90,000	$135,000	$ 90,000	$45,000
$2.00	75,000	$150,000	$ 75,000	$75,000
$2.50	60,000	$150,000	$ 60,000	$90,000
$3.00	40,000	$120,000	$ 40,000	$80,000
$4.00	20,000	$ 80,000	$ 20,000	$60,000

Now obviously in these circumstances this company, or group of companies, would produce only 60,000 of the lighters and would fix the price at $2.50 each. This would be done because with this production and at this price profits would be higher than they would be with larger production and a lower price, or smaller production and a higher price. Under competitive conditions, in contrast, there could be no such control of the market for the purpose of maximizing profits. Rather—since by assumption $25,000 aggregate profit is "adequate"—there would be 100,000 of the lighters produced, instead of 60,000, and they would be sold for $1.25, instead of $2.50.

In a competitive situation, larger sales at a lower price are stimulated.

Such, in theory, is the way monopolistic conspiracies in restraint of trade operate against the public interest. As noted above, in the actual business world the determination of monopoly price is never so simple and clear-cut as this hypothetical example makes it appear, but the principle is as outlined. In all instances of monopoly price there is a curtailment of the supply which under competitive conditions would have been offered on the market. The purpose of such curtailment is to obtain a higher price than would be possible under competitive conditions.

The curtailment of supply to maintain price is characteristic of monopolies formed to restrain trade, whether under private or government influence.

The most spectacular and objectionable example of such withholding of goods from the market is the purposeful destruction of the commodities concerned. This has happened most frequently through government action with consumers' goods (*e.g.*, coffee), but it also has occurred with other types of goods.

Theoretically, it is possible that the price actually charged may be lower, because of large-scale production, than would have prevailed under competitive conditions, with small-scale production; but in practice that certainly is the exception rather than the general result.

As a rule, however, conspiracies in restraint of trade do not rest upon the destruction of commodities. The restraint consists simply in producing a smaller amount than would be produced under competitive conditions.

It is important to note, however, that the mere fact that a concern does not produce to the limit of its capacity does not indicate a monopolistic restraint of trade.

Production at less than capacity, however, does not indi-

There are many reasons for producing at less than

cate monopolistic restraint of trade; other reasons may prevent use of full capacity.

capacity. For example, a firm may lack funds for a larger production. Or it may believe that employment of the rest of its available funds in other lines of business will be more advantageous. Or it may believe that additional production will not be taken at a price that would permit as large a total profit as is being secured from the quantity actually produced. Or it may have no firm orders at a profitable price and, because of the individual design of units of its products, may not be able to produce without orders specifying just what is wanted.

The Individual Consumer under Monopoly Prices

Consumers, in a competitive market, direct the use of productive resources.

Under competitive prices the consumers are a compelling influence in directing the use of the available resources. The entrepreneurs, the capitalists, and the farmers must aim at supplying the market with the commodities most urgently asked for by the consumers. They must try to turn out, as cheaply and as well as possible, those quantities of every commodity for which the consumers are ready to pay most liberally in comparison with the cost of production. There prevails a tendency to bring the price of every commodity down to the point where the price is equal to the cost of production (including interest and managerial compensation). The substitution of monopoly prices for competitive prices results in a deviation of production from the lines determined by the free market, where suppliers and prospective buyers meet on equal terms.

But monopolistic control of prices diverts production from these normal lines.

The individual consumer's reaction may be to restrict his purchase of other commodities, or of the monopolized commodity, to varying degrees; but in all cases his satisfaction is impaired.

The reactions of the individual consumer to a monopoly price may vary widely:

1. In spite of the price rise the individual does not restrict his consumption of the commodity concerned; he is therefore under the necessity to restrict his purchases of other commodities which he deems less indispensable.

2. The consumer restricts his purchase of the monopolized commodity to such an extent that he does not spend for it more than he would have spent—for the purchase of a larger quantity—under the competitive price.

3. The consumer restricts his purchase of the

monopolized commodity to such an extent that he spends less for it than he would have spent under the competitive price; he buys with the money thus saved goods which he would not have bought otherwise.

4. The consumer spends more for the monopolized commodity than he would have spent under the competitive price and acquires only a smaller quantity of it.

In all cases, however, the satisfaction of the individual is impaired by the monopoly price. In other words, in all instances he would be served better by competition.

Free Enterprise and Conspiracies in Restraint of Trade

Monopolistic conspiracies curtail individual opportunities and interfere with desirable business expansion.

Monopolistic conspiracies in restraint of trade restrict the individual's opportunity to enter those fields of economic activity in which he could succeed best and render the most useful services to his fellow citizens. They thus curtail the chances of the rising generation. They prevent a businessman operating in other branches of business from adjusting his organization in the best possible way to existing market conditions by expanding it into a monopolized field.

Aid of government in restricting competition is sought by labor unions and by advocates of organizing industry compulsorily into "self-governing" bodies.

The idea of excluding competitors with the aid of government interference is popular nowadays. It permeates the policies of influential labor unions. It is at the bottom of all plans to organize industry in compulsory bodies, whether they are labeled "self-government in industry" or "corporativism," and whether they are promoted by governments themselves, progressive or fascist. The purpose of all such endeavors is to return to the privileged inns and guilds and to the chartered companies, which in the centuries preceding the evolution of modern industry hindered economic improvement and technological progress.

Interstate trade barriers are examples of local government re-

A characteristic outcome of this anticompetition spirit is found in the endeavors of various local interests to erect, by means of state legislation and measures of local administration, a substitute for interstate trade barriers. It is one of the most beneficial provisions of the Constitution that it bars the way to all such "reforms." One needs only to compare American conditions with those of

strictions on mobility of capital, workers, goods, and services.

Europe in order to appreciate what this absence of interstate barriers means. The United States is the world's largest uniform market. Its people enjoy the advantages of large-scale production because there is free mobility of capital, men, commodities, and services within the country.

Free enterprise forbids special favors for the less efficient.

Free enterprise is the antithesis of all plans to protect by privilege a less efficient against a more efficient business. The only method of outstripping a competitor who complies with free enterprise is to produce and to sell better and cheaper products.

American Conspiracies in Restraint of Trade

Before 1890 the common law was the chief legal protection against conspiracies in restraint of trade.

Under American common law, contracts in restraint of trade are void and hence not enforceable at law. For most of our national life, or until 1890, that was the chief legal protection against such conspiracies. Interestingly enough, too, in the early days it proved reasonably effective. This was not because such conspiracies were not entered into. On the contrary, our early industrial history is replete with examples of producers and distributors entering into pools and agreements and arrangements of one kind and another designed to free themselves of the pressure of competition and enable them to establish a monopoly price.

This did not prevent the formation of such combinations, but the agreements were short-lived because they could not be legally enforced.

But in every case such arrangements proved to have a short life. Always sooner or later one of the participants would break away from the agreement and go his independent way on the theory that thereby he could make larger profits than if he stayed in the group. And since the agreement was not enforceable at law there was nothing the others could do to defend themselves from the activities of the independent except return to competitive conditions. So it happened time after time, with competition in the long run always winning out.

In the 1880s a new form of conspiracy appeared—the "trust."

Then, in 1882, a new form of conspiracy in restraint of trade appeared on the scene, designed to get rid of the weakness of agreements which were not enforceable. This was the "trust," a word which has come to be used in this country to designate any monopolistic conspiracy in

restraint of trade. The first use of the trust device was by Standard Oil. Under this plan the stockholders of the participating companies turn their stock over to a central board of trustees with power to vote it. After the assignment of the stock, then, the participants have no choice but to accept the policies of the trust.

But within 10 years, under adverse court decisions, trusts had largely disappeared.

But the device did not prove to be nearly so clever as expected. It was successful in keeping all participants in line, but various state courts immediately began to hand down unfavorable decisions. It was held that the ordinary machinery of law could not be used to create what was in fact a monopolistic conspiracy. It was held further that a corporation which thus divested itself of its independence, by assigning its stock to others for the purpose of determining policy, thereby made itself subject to dissolution. Under the impact of these adverse decisions the device quickly lost favor and by 1891 had more or less completely disappeared, leaving only the name, as indicated above, plus a greatly aroused public opinion against any such efforts of a group of companies to conspire for monopolistic purposes.

The holding company was the next development for the purpose of restraint of trade.

The next development was the holding company. Under this, a corporation is formed which acquires at least a majority of the stock of the "participating" companies. This may be done by actual purchases of the stock in the open market; but more usually an exchange is worked out whereby the stockholders of the "participating" corporations turn over their shares in return for stock in the holding company. In order to make this possible, it is necessary for the holding company to have the right to buy and hold the stock of other corporations; that is a right which can be conferred only by the state which grants a charter. This device thus had its foundation in a positive legal provision. That was one of the reasons it was regarded as a certain way to get around difficulties of the trust agreement. Various states—New Jersey being outstanding—proved willing to grant this power, and trust agreements in time came to be largely replaced by holding companies. For example, the Standard Oil Trust, which was dissolved into a community of interests based on interlocking shareholding, was formalized in 1899 by the

Charters granted by some states encouraged this form of combination.

organization of a holding company. The Sugar Trust also was replaced by a holding company, and many others followed the same path.

But the Supreme Court limited the exercise of this right of combination when aimed at restraint of trade.

At first, too, it appeared that the hopes of those using the holding-company device as a means of creating a monopolistic conspiracy in restraint of trade would be successful. But with the decision of the U.S. Supreme Court in the Northern Securities case, in 1904, it was made clear that this was not true. This decision did not eliminate the holding company as a type of industrial organization, and it still is widely used; but again it was shown that in this country even the exercise of rights conferred by the states does not provide a legal basis for creating monopolistic conspiracies in restraint of trade.

Merger or complete consolidation, however, is not so exposed to legal obstacles, for consolidations are made with various legitimate objectives.

Last of the devices that have been tried in this field, and by all odds the hardest to combat legally, is the formation of a single corporation into which all the participating concerns are completely merged. Under a holding company each of the junior corporations remains a legal entity and presumably continues to operate independently. Under a complete consolidation this independent identity is lost and there results just one corporation.

The difficulty of combating such a corporation legally as a device for creating a conspiracy in restraint of trade is that exactly the same device is constantly used for other than conspiracy purposes. We have such consolidations to provide greater efficiency of production, to facilitate refinancing, to improve marketing possibilities, to offer a wider range of goods, and for scores of other reasons, all of which are legitimate and directly in the public interest. Before one of these consolidations can be definitely classified, therefore, it is necessary to determine the real intent back of it, and such determination is anything but easy.

Legislative Reaction—Sherman Antitrust Act

As noted earlier, it was not until 1890 that a definite legislative attempt was made by the federal government to prohibit monopolistic conspiracies in restraint of trade. In that year, as a result of a public demand which had been

whipped up by the "trusts" formed in the preceding few years, Congress passed the Sherman Antitrust Act.

The Sherman Antitrust Act (1890) brought combinations in restraint of trade, in interstate commerce, under a federal ban.

This act embodied a basic policy of the United States in regard to monopolistic conspiracies which has continued to this day. It stated, "Every contract, combination . . . or conspiracy, in restraint of trade or commerce among the several states, . . . is . . . illegal," and "every person who shall monopolize or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states . . . is guilty of a misdemeanor and subject to both criminal penalties and civil liabilities."

Under this act a long list of notable cases were decided by the Supreme Court. The leading ones up to 1912, because of the importance of the decisions in clarifying policy, were:

The development of interpretation of this act is recorded in successive Supreme Court decisions.

American Sugar Refining Company (Knight) (1895)
Trans-Missouri Freight Association (1897)
Joint Traffic Association (1898)
Addyston Pipe and Steel Company (1899)
Northern Securities Company (1904)
Swift and Company (1905)
Standard Oil Company of New Jersey (1911)
American Tobacco Company (1911)
Standard Manufacturing Company (1912)
Union Pacific Railroad Company (1912)

The story of the tobacco trust illustrates the manner of creating and maintaining a monopolistic position in industry.

For the student of monopolistic conspiracies in restraint of trade, all these cases, and many others, are matters of utmost importance, but it is not possible here to review them even briefly. Purely as an example of the problem reflected through such combinations, however, it will be enlightening to summarize the history of one of them. For this purpose we may use the American Tobacco trust. It was not exceptional in any particular and, on the whole, probably was no better or worse than any of a dozen others that might be selected; but the record here is exceptionally clear, both in the manner of creating the monopolistic position and in the practices followed for the purpose of perpetuating this position once it was attained.

An Example—The American Tobacco Company

The American Tobacco Company was formed in 1890 by the fusion of five companies, to which four more were soon added. The five companies had produced 90 per cent of the total American output of cigarettes.

Competition was particularly keen in the cigarette field in the early stages of the formation of the tobacco trust. In fact, the Supreme Court later called this competition "fierce and abnormal." The first unit of the trust—the American Tobacco Company—was formed in 1890 by the fusion of five leading tobacco companies, which had produced practically 90 per cent of the country's total output of cigarettes before the merger. From the outset a policy of expansion was adopted and four more concerns were quickly added to the trust. The program was shaped in such a way that this combination of companies reached into all the important branches of the tobacco business by the end of 1891.

The trust immediately invaded the profitable plug-tobacco field.

A major acquisition of the trust in its first year was the National Tobacco works at Louisville. The output of this concern was confined to plug tobacco. Industry leaders at that time had reason to believe that plug tobacco would be the leading product in the field. In the preceding decade the production of plug and twist tobacco had gone up 85 per cent until it represented nearly a third of all tobacco manufactured. Moreover, profits in this line were exceedingly high. However, in the ensuing decade there was a strong change in consumer demand as cigarettes came to the fore and the gentle art of chewing tobacco fell into low esteem. In the next 10 years the output of plug tobacco showed very little progress. Nevertheless the American Tobacco Company entered into vigorous campaign to secure domination of the plug field in addition to its established position in the cigarette business.

By 1899 the plug-tobacco field was dominated by the trust.

The precise methods adopted by the cigarette trust in thus extending its control are too detailed to set forth in this brief sketch. However, it may be pointed out that the basic control of the cigarette business from the start made it easy to require dealers who handled the trust's cigarettes to handle also its new plug business. Between 1891 and 1898 the trust increased its percentage of the country's plug output from 3 to 23 per cent. Then the more important independent producers capitulated to the pressure of the trust, with Liggett & Myers falling in line in the

spring of 1899. Thus the plug combination was completely dominated by the cigarette trust interests. J. B. Duke was president of both the American Tobacco and the Continental Tobacco Company, which together monopolized the field. Most of the directors of Continental Tobacco, which concentrated on the plug end of the business, were American Tobacco men.

Meanwhile the smoking-tobacco field was kept well under control, mainly in the hands of the American Tobacco Company.

While the great battle for the domination of the plug field was progressing during the decade just before the turn of the century, the tobacco trust was also busily extending its activities in the cigarette field. Competitors in this field developed sufficient strength to convince the leaders of the combine of the wisdom of buying them in before they became too troublesome. In addition, steps were taken to perfect control over patented cigarette machines. By 1898 the trust controlled about 27 per cent of all smoking tobacco. Through acquisition of other concerns this proportion increased to 54 per cent before 1900. The control of smoking tobacco expanded further in the ensuing decade until by 1910 it reached 76 per cent of the total smoking business. This smoking business was kept primarily in the hands of the American Tobacco Company with Continental dominating the plug field and the American Snuff Company dominating the snuff field.

In the snuff business there was a separate combination, but after a price war with the trust the two combined their interests and by 1906 controlled 96 per cent of the snuff output.

The American Snuff Company was organized in 1900 by the tobacco trust to take over the business accumulated up to that point in the snuff branch of the field. Around 1898 the trust was handling only 6 per cent of the snuff business in the country, but a series of acquisitions quickly brought this proportion up to 32 per cent.

These percentages clearly indicate that other large producers were in the field. As a matter of fact, there was a great combination in the snuff branch of the business before American Snuff was organized, and this competing combination produced 46 per cent of the total output in the United States. However, as soon as the American Tobacco group obtained nearly a third of the snuff market the stage was set for a price war between the two great combinations. For a year or so this price war was vigorous, and then the combatants concluded that there were no profits in such tactics. The major snuff producers then got

together and formed a combination so strong that in its first year it controlled 80 per cent of the snuff output. By 1906 it controlled 96 per cent of it.

Dissolution of the Tobacco Trust

For 20 years the trust's development was unchecked; but in 1911 the Supreme Court ordered dissolution.

Up to 1911 the processes of combination in the various branches of the tobacco industry proceeded unchecked. Then came a dissolution decree by the U.S. Supreme Court. The Court declared that the history of the combination was replete with acts which were

> demonstrative of the existence from the beginning of a purpose to clearly dominate and control the tobacco trade, not by the mere exertion of the ordinary right to contract and to trade, but by methods devised in order to monopolize the trade by driving competitors out of business. . . .

The Court recounted practices found in restraint of trade. These included local price cutting to destroy competition; "fighting brands"; bogus independent concerns; special agreements with jobbers; imitation of other brands; premium systems.

The Court specified a number of practices which it may be worth while to outline here:

1. *Local price cutting.* This comprises cutting prices in a particular area just long enough to destroy competition.
2. "*Fighting brands.*" These were similar to items which today are termed "loss leaders." Thus the notorious Battle Ax plug was virtually given away by the hundredweight during the "plug war."
3. *Bogus independent concerns.* Various semblances of independent companies were set up by the trust to overcome the hostility to it on the part of labor unions and the consuming public.
4. *Special agreements.* These were made with jobbers and involved special rebates or discounts and sometimes the boycotting of certain independents.
5. *Imitation of other brands.* For example, the trust distributed a Central Union brand free to dealers so that they could undersell the U.S. Tobacco Company's Union Leader.
6. *Coupon and premium systems.* These were an indirect method of price cutting.

7. *Pressure.* Competitors were required not to compete for a certain period in return for certain payments or favors.
8. *Utilization of cash resources.* These were used to subdue a competitor and then draw him into the combination.

A plan of dissolution was accepted by the Court, whereby the assets of the trust were divided among 14 corporations, none of which would have a dominating position in the production of any particular product.

Under the procedure adopted as the result of the udicial decree, the American Tobacco Company drew up plan of dissolution. After many amendments a final draft vas worked out with the assistance of the Attorney Gen-eral and was accepted by the Supreme Court.

Under this plan the assets of the trust were dis-ributed among 14 designated corporations. On the surface here was every appearance of a division which would eave no individual concern in a dominating position with egard to the production of any particular product. How-ever, the cigarette business was so divided that the Ameri-can Tobacco Company retained 33 per cent of the coun-ry's total production, Lorillard retained 26 per cent, and iggett & Myers 21 per cent—leaving only 20 per cent or all other concerns. The plug business was distributed y allotting 38 per cent to Liggett & Myers, 23 per cent o the American Tobacco Company, and 15 per cent to Reynolds Tobacco Company. These three companies then controlled 76 per cent of the plug business, leaving the ndependents 24 per cent. The snuff business was so divided hat only 8 per cent of the value of the output in that ranch was handled by independents, while 25 to 33 per ent was in the hands of each of the three successor com-panies in the business.

So the major successors of the trust could compete honestly with one another if they desired, though some interlocking stock ownership remained.

Thus the dissolution decree divided the tobacco usiness in such a way that the major successors could onestly compete with one another if they so desired. However, it is a question whether the securities of these ompanies were so distributed as to result in keen com-petition among the major companies. It seems worth while o cite at least one instance of redistribution of stock-oldings in this connection. It had been observed that the American Tobacco Company held two thirds of the stock of Reynolds Tobacco Company at the time of the dis-

solution decree. The decree required American to divest itself of these shares. The company did this by giving these shares to its own stockholders as a dividend.

There were wide differences of opinion as to the effectiveness of the dissolution.

There are wide differences of opinion as to the effectiveness of the dissolution decree in the case of the tobacco trust. President Taft at that time stated: "Not in the history of American law has a decree more effective for such a purpose been entered by a court than that against the tobacco trust." On the other hand, Mr. Brandeis was of the opinion that "the decision of the U.S. Circuit Cour approving the plan submitted by the American Tobacco Company is in fact a nullification not only of the Sherman Law but of the decision of the Supreme Court of the United States."

Other Antimonopoly Legislation

In 1914 Congress passed two acts to supplement the Sherman Act.

To clarify further just what is to be considered a conspiracy in restraint of trade, to help business to understand what is to be regarded as "unfair" competition, and to meet the demand of the still aroused public opinion that something more be done to free and protect our economy from the continued growth of "trusts," Congress, in 1914, passed two additional acts to supplement the old Sherman Act.

The Clayton Act

The Clayton Act specifically prohibited certain practices if found to "substantially lessen competition."

The first of these, the Clayton Act, attempted to lay down specific prohibitions which are to apply if the practices covered "substantially lessen competition." These are:

These included price discrimination; exclusive con-

1. *Price discrimination.* It was provided that a seller cannot charge different prices for the same goods. (This provision was amended in 1936 by the Robinson-Patman Act to tighten the prohibition against differences in prices which lessen competition. Differentials, however, are allowed if they merely reflect variations in costs resulting from differing methods or quantities of sale or delivery. On this question of prices it should also be noted that, by the so-called Miller-Tydings Act of 1937, it was provided

hat resale maintenance agreements can be made, except etween competing firms, whenever such agreements are awful under state laws.)

2. *Exclusive-dealing contracts.* It was provided that seller may not require a buyer, as a condition of sale, to efrain from using or buying competing products. For xample, a manufacturer of typewriters may not require, s a condition of sale, that a dealer sell only a designated ind of ribbons or paper.

3. *Acquisition of corporate stock.* It was provided hat no corporation engaged in commerce may acquire, irectly or indirectly, stock of another corporation likevise engaged in commerce when the effect of the acquisiion would be substantially to lessen competition between he parties to the transaction.

In addition to the foregoing prohibitions, the Clayon Act states that

> he labor of a human being is not a commodity or article of commerce, and that] nothing contained in the antitrust laws shall be construed o forbid the existence and operation of labor, agricultural, or hortiultural organizations instituted for the purposes of mutual help, and ot having capital stock or conducted for profit, or to forbid or estrain individual members of such organizations from lawfully carryng out the legitimate objects thereof; nor shall such organizations, r the members thereof, be held or construed to be illegal combinations r conspiracies in restraint of trade, under the antitrust laws.

Apropos of this provision it may be noted that, lthough the labor of a human being is not a commodity, he services rendered by labor must be and are paid for like ommodities.

tracts; and acquisition of corporate stock of competitors.

In each case, however, the effect on competition, whether "substantial" or not, was to be considered.

The act also exempted labor organizations from the antitrust laws.

Labor was pronounced "not a commodity or article of commerce"—though services rendered by labor must in reality be bought and sold.

he Federal Trade Commission

The Federal Trade Commission Act passed in the ame year was fundamentally a "facilitating" act designed o improve the enforcement of the antitrust statutes, or, nore accurately, to obtain clarification of what would be onsidered an "unfair" competitive practice and thus proide business with a better understanding of what it may nd may not do. This act provided for the creation of a ederal Trade Commission, to replace the old Bureau of Corporations, and empowered the Commission to prevent

The Federal Trade Commission Act, in the same year, set up a commission empowered to prevent use of unfair methods of competition

and unfair or deceptive practices.

the use of "unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce."

The FTC may issue a cease-and-desist order. If this is not obeyed, it must apply to the courts for an enforcement decree.

The act, however, did not attempt to define unfair competition, leaving this to the Federal Trade Commission and the courts. If the Commission thinks that a competitive practice is unfair, it may issue a cease-and-desist order after notice to the alleged violator, a hearing, or a decision. If the respondent neglects or refuses to obey the order, the Commission must apply to the courts for an enforcement decree. The appropriate courts have jurisdiction to review the findings and order of the Commission. It has been the policy of the Commission in many situations to develop codes of fair practice after conference with the industries.

Unfair practices outlawed by the FTC include misleading advertising or trade names, disparagement of competitors, etc.

Some of the unfair practices outlawed by the Commission are false and misleading advertising, misbranding, commercial bribery, trade boycotts, making false and disparaging statements regarding competitors, the use of misleading trade names, and dishonest selling devices.

Suggestions for obtaining advance determination of legality of projects encounter serious practical difficulties.

Numerous suggestions have been made that the Commission be given authority upon application to make advance determination in respect to contracts between competitors, mergers, trade association practices, and the like, in order to enable businessmen to ascertain whether contemplated action will be a violation of the antitrust laws. The practical difficulties of such a procedure are considerable. It would not be easy to acquaint the Commission with all the details of a projected plan, and it would scarcely be possible in any event to oust the courts from jurisdiction. There are also political obstacles in the way of intrusting the Commission with a control that might bring it into conflict with the Department of Justice.

Legal Interpretations of Conspiracy in Restraint of Trade

Court decisions as to monopolies, restraint of trade, and the

As already indicated, the Sherman Act and the other antitrust laws, as Chief Justice Hughes once remarked, constitute a charter. Their language is general and makes no attempt at the formulation of a detailed code of business practices. One must learn the meaning and applica-

ion of these laws by an examination of court decisions, specially those of the Supreme Court. These decisions ave dealt with many aspects of restraint of trade and the levelopment of monopolies. Some decisions have been conerned with the definition of commerce and especially vith the determination of what commerce is subject to ederal jurisdiction. There have been decisions involving ontracts between competitors, trade practices involving eller and buyer but affecting competitors, and various orms of common action by means of trade associations nd otherwise. Although it is impossible to reconcile the ecisions in all the Supreme Court cases, much less the inguage of the opinions, out of them all a fairly conistent body of legal rules has emerged.

meaning of interstate commerce have evolved a fairly consistent body of legal rules.

It should be noted that although it is perfectly true hat the existence of the antitrust law reflects public ostility toward large corporations and although the size f the defendants may have influenced the courts in some istances, the Supreme Court has categorically rejected, in the United States Steel Corporation and other cases, the est of "bigness" as a determining factor. Furthermore, in pite of the recommendation of William Jennings Bryan nd certain economists, Congress has always refused to mend the antitrust laws by inclusion of any arbitrary mitation on the size of corporations.

The Supreme Court has rejected the test of "bigness" in interpreting antitrust laws, and Congress has refused to limit size arbitrarily.

Perhaps the most important single definition by the upreme Court is that announced in the Standard Oil ase to the effect that what the Sherman Act prohibits *unreasonable* restraints on trade. This was the rule of the ommon law. In spite of the fact that the Sherman Act in rms condemns "every contract or combination in estraint of trade," the Court concluded that Congress ould not have meant such a drastic addition to the common law. It does not follow, as the Court stated in the renton Potters case, that an agreement to fix prices is reasonable restraint of trade merely because the prices fixed are reasonable. Reasonableness is not a definitive oncept. Its meaning varies in the different fields of law ecause it is a convenient summary of the considerations hich control in the application of legal doctrine. It seems fe to assert that any contract or combination among

The Supreme Court has interpreted "restraints of trade" to mean unreasonable restraints, but combinations to fix prices have usually been considered violations.

competitors to fix prices will be found a violation of t
Sherman Act.

In merger cases the Court has stressed intent; method of acquiring monopolistic power; extent of control; and manner of using such control.

In the industrial merger cases the Court has stres
four factors: (1) the intent to obtain a monopoly, (
the method by which a degree of monopoly power
obtained, (3) the extent of control, and (4) the manı
in which such control as has been acquired is exercis
There is considerable indication that the actual polic
of a powerful corporation will be given the greatest weig
in determining whether or not its practices are a vio
tion of the antitrust laws. It is this factor that has giv
rise to the frequent statement that the Court distinguisl
between good and bad trusts; that is, between aggregatic
of capital which do and those which do not engage
predatory practices.

Walker D. Hines, in an address at Columbia U
versity in 1931, thus summarized the Supreme Cour
interpretation of the Sherman Act:

It has recognized changing conditions of competition, and tested arrangements by current economic needs, while preserving the essential principles of competition.

> The Sherman Antitrust Act of 1890 was, like our Constitut
> itself, an expression in brief terms of living principles to be appliec
> the living and ever-changing and developing organisms of the econo
> and political life of our people. There have been and there are
> going on profound evolutionary changes in the character, extent,
> effectiveness of competitive methods. . . . Generally speaking,
> Supreme Court has looked through the confusion of the past at
> realities of the present as shown by the facts of the particular
> before it, and has not hesitated to sanction arrangements which (te
> by current economic conditions and needs) have applied correct
> to destructive excesses of competition, while preserving and promot
> the essential principle of competition under conditions where it
> clear that the purpose or effect, instead of being sinister or injuri
> will be wholesome and really promotive of the removal of restra
> on trade.

Cartels

Cartels are agreements of independent enterprises to control a market for restriction of output

In recent years an increasing amount of attenti
has been devoted by the American public to the probl
of cartels. The term "cartel" is used to signify vario
types of voluntary agreements between independent bu
ness units. In present-day discussion of the monopoly pro
lem the use of the term is restricted to combinations
independent enterprises the aim of which is to obt

ıonopoly power. It is joint action to control a market. 'he restriction of output and sales, necessary for the ıforcing of a fixed price, is accomplished by the alloca-.on of quotas. Thus the business is divided among the ıembers of the combine.

and sales, with allocation of quotas, to enforce fixed prices.

With some bulky goods in the marketing of which :ansportation costs play an important role, the establish-ıent of local, regional, or even national cartels is pos-ble without any interference from the government. Vith other commodities a combine can succeed only 'here some institutions—for instance, tariffs—insulate ıe monopolized market from the world market.

In the cases of some cartels tariffs may be needed to insulate a market.

The classical home of the modern cartel is Germany. ;ermany was for many decades committed to a policy of aising production costs. The government's prolabor policy nd social security institutions placed a heavy burden pon business. The labor unions succeeded in enforcing ıoney wage rates far above the level that German com-etitive business could afford. To prevent foreign plants :om underselling German manufacturers on Germany's ome market, the Reich took recourse to a protective ıriff.

Germany is the home of the modern cartel.

But protection is efficacious only on the domestic ıarket. It did not in itself provide a remedy for the prob-ms of German export trade. As Germany is short of atural resources and depends on the importation of huge uantities of foreign raw materials and food stuffs, it must xport manufactures and some mining products like coal ıd potash. To continue such export in spite of the high roduction costs, dumping became necessary. The tariff rovided the enterprisers with the incentive to enter into ırtel agreements. They sold at monopoly prices on the ıeltered domestic market and used a part of the monopoly roceeds as a compensation for selling abroad below costs. is obvious that the emergence of German cartels was not ı outcome of the spontaneous evolution of economic fac-ors. The German government pretended to fight against ıonopoly power. In fact, however, it preferred monopoly › competition. If the enterprisers, in spite of the incen-ve offered them, were slow in forming a cartel, the law orced them to combine. This was the case, *e.g.*, with coal

German cartels had the tariff protection needed in the home market, used "dumping" in export trade, and were encouraged by government—sometimes even forced.

and potash. The Prussian government in its capacity a owner of large coal mines was the most zealous member o the coal cartel.

American business, by and large, is opposed to cartels. Its experience favors expansion, not restriction, of output.

American business, by and large, is opposed to car telization. It considers expansion and not restriction o output the most profitable method of increasing total n profits. The experience of the big American enterpris clearly proves the correctness of this view. The most suc cessful enterprises were those which reduced both pro duction costs and sales prices by expanding output an sales. The average American household is today equipp with many devices which only a few decades ago we either entirely unknown or available only to wealth people.

In export trade, however, cooperation with foreign cartels should not be prohibited if it does not interfere with selling in home market.

In exporting to foreign countries American busine is under the necessity to adjust its activities to the cond tions prevailing abroad. This means, in many countri and in many branches of industry, cooperation with fo eign cartels. It is difficult to understand why such cooper tion should be considered prejudicial to American inte ests. The exporter should not be handicapped on t foreign market by laws and regulations which do not bi his foreign competitor in the same degree. Membersh in foreign cartels should be free and legal if it does n interfere with selling on the domestic market.

The free world market is shrunk by national cartels, so that international arrangements may be practicable as to trade with uncartelized areas.

At the same time it should be noted that, if the exist national cartels in a good many of the great industr nations, the free world market shrinks to a comparative unimportant part of the whole world market. The mu greater part of the total consumption of the commodi concerned is sold and bought at monopoly prices. The co sumption of the rest of the world—mostly backwa countries with low standards of living—is comparative insignificant. Then it is not too difficult for the natior cartels to come to an amicable arrangement concerni the open market. An international cartel becomes pra ticable.

Government-made Cartels

The most conspicuous instances of governme made cartels are those international treaties which t

nternational Labour Office euphemistically calls "Inter-
Governmental Commodity Control Agreements."

The preamble of the rubber agreement, signed in London, May 7, 1934, by Great Britain, France, India, he Netherlands, and Siam, reads as follows:

The rubber agreement of 1934 is a conspicuous example of government-made international cartels.

> Considering that it is necessary and advisable that steps should e taken to regulate the production and export of rubber in and from roducing countries with the object of reducing existing world stocks o a normal figure and adjusting in an orderly manner supply and lemand and maintaining a fair and equitable price level which will be easonably remunerative to efficient producers, and being desirous of oncluding an agreement for this purpose. . . .

What this means is simply that the agreement is imed at a restriction of output in order to substitute a nonopoly price for the competitive price.

Similar intergovernmental agreements were entered nto with regard to many other commodities; *e.g.*, sugar, ea, beef, coffee, timber, tin. International commodity greements with varying degrees of governmental sanction r participation concern, moreover, aluminum, lead, nickl, zinc, mercury, nitrates, petroleum, potash, sulphur, uinine, and raw silk. It is worth while mentioning that oviet Russia did not refuse to cooperate in such agreenents with the "capitalist" nations.

Similar agreements have been made as to sugar, tea, beef, coffee, timber, and tin; other types, as to other products.

These agreements are the worst instances of economic nationalism. They are not only an economic calamty. They engender conflicts between nations which hinder he endeavors to maintain peace and to establish an ffective international organization.

Public Opinion and International Cartels

In dealing with the problems of international cartels, oth "voluntary" and compulsory, people confuse various ntirely different things: (1) the problem of foreign nvestments in this country and the control of American rms by foreigners; (2) the problem of foreign dumping n our domestic market; (3) the relation of American usiness to foreign cartels on foreign markets; and (4) nonopolistic practices of foreign cartels concerning the upply of the American public.

Such agreements work against world peace. Four different aspects of international cartels are foreign invest-

ments in United States; foreign dumping here; relation of American business to foreign cartels on foreign markets; and relation of foreign cartels to American supply.

Reliable and exhaustive figures concerning the tot amount of foreign investments in this country are n available. However, all experts agree that foreign corpor tions and firms controlled on the eve of the late war on a negligible part of American production. The Unit States is a creditor nation. Its foreign investments eclip by far foreigners' investments in this country. The w considerably strengthened America's position as a natic lending and investing abroad. There is little doubt th there prevails a tendency toward a liquidation of fo eigners' holdings of American securities and manufactu ing establishments. Neither British nor German inves ments will in the future play any role in the structu of American business.

The problem of foreign investment in American business is no longer of serious importance.

However that may be, this question has nothing do with the monopoly problem. Whether or not the Unit States should adopt a policy restricting foreign ownersh and control of American firms is a problem of its ow An unbiased investigation of the underlying issues w certainly disclose that the problem is of but litttle impo tance.

Foreign dumping on our market can be handled by tariff policy.

The second problem (foreign dumping) is one to l solved by the tariff policy.

The United States cannot change cartel policies of other nations, and our exporters must adjust their practices to conditions prevailing abroad.

The third problem is a delicate one of foreign polic The United States is not in a position to force foreig governments to abandon their cartelization policies. has been pointed out above that American exporters mu adjust their behavior to the conditions prevailing in t areas in which they want to do business. The present sta of international law entitles every nation to encoura the foundation of cartels or even to impose on its industri compulsory cartelization. It would be desirable if t United States could induce foreign governments to chan their anticompetition policies. However, the prospects such a change are not very bright.

But our government should use all lawful meth-

A realistic investigation of the fourth problem mu disclose the fact that the monopolistic practices of forei countries hurting the interests of the American public a as a rule the outcome not of business activities but deliberate government action. The governments esta lished various schemes of output restriction and price reg

ation. The undisguised aim of this policy is monopolistic lomination of the world market for vital raw materials nd foodstuffs. As this required concerted action on the art of all countries producing the commodity concerned, he nations have had recourse to international agreements.

It is obvious that the United States government hould use all methods compatible with the provisions of nternational law to prevent foreign countries from entering into agreements so highly detrimental to vital interests f this country.

ods to prevent foreign countries from making agreements that restrict our supply of vital raw materials and foodstuffs.

Conclusions

From what has been said it will be observed that here are two factors in the problem of competition vs. nonopoly: (1) the price, (2) the character of the goods nd services involved. Either factor might be fixed by overnment control or by conspiracy, while competition night continue as to the other element.

The two factors in the problem of competition vs. monopoly are price and character of goods and services involved.

Conspiracies in restraint of trade become more easily bvious if they take the characteristic of price fixing, since rice is the thing easily observed and readily understandable y any observer. It may seriously be questioned, however, whether conspiracy to fix the character of the product oes not lay the dead hand on enterprise more heavily han does even price conspiracy.

Here we head into a perfect illustration of the way n which agreement between competitors may either timulate or stifle competition.

Standards defining the characteristics of goods and ervices in a way easily understandable by the buyer re a great aid to discriminative purchasing and hence a timulus to competition. Certification may further dvance competition as to quality and performance, which ould still preserve the characteristic of free enterprise ven though price were fixed.

Standards for goods and services aid buyers and stimulate competition.

On the other hand, a standardization which preumes to say what quality shall be produced and what tyle shall be followed serves definitely to limit improvement in the character of goods and in the satisfaction of he wants of the consumer.

But standardization that prescribes quality of style limits improvement.

Industry has sought standards helpful to both producers and consumers; but compulsory and restrictive standards prescribed by government or by conspiracy among producers tend to narrow range of consumers' selection and to prevent progress.

Industry, of its own motion and for the purpose o promoting fair and equitable competition, has sough standards of definition as to quality similar to the quanti tative standards of weights and measures. This has prove helpful to producers and purchasers alike.

Bureaucrats, on the other hand, have tended, seekin in good faith to promote fair competition, to advanc grade labeling in ways which are, to say the least, subjec to debate and which some hold would be destructive t fair competition.

The more ardent standardizers would go eve further. If some body was authorized to prescribe th standards of quality of goods which might be produced an offered to the public, it could assume in the extreme tha there is one grade of a given commodity suited to any an all conditions of use and to any and all users. The obviou effect of this policy would be to narrow the range c customers' selection and to prevent progress. The point that standardization of definition and criteria of measure ment is an aid to free competition, while standardizatio of quality offered, whether by conspiracy among pro ducers or by authoritarian edict, tends to monopoly abus Such standardization, equally with price fixing, is of th essence of a monopoly position.

Standardization of quality therefore tends to monopolistic abuse.

The substitution of a monopoly price for a competitive price is contrary to the principles of the free enterprise system.

The substitution of a monopoly price for a con petitive price is tantamount to a serious restriction of th working of the most characteristic principle of the fre enterprise system; *i.e.*, of the sovereignty of the consumer It restricts output although such a restriction does not su the wishes of the public. It secures to the monopolist a extra gain which is not derived from the best possib satisfaction of the needs of the consumers. With regar to these facts, we may say that monopoly prices a abnormal in the framework of a market society.

Most instances of monopoly power are directly or indirectly created by government.

Public opinion is correct in recognizing this and criticizing monopoly prices. Public opinion is not co rect, however, in assuming that in a system of individu enterprise a natural tendency prevails toward a progressi substitution of monopoly power for competition. The is no such tendency. Most instances of monopoly pow are either directly or indirectly government-made. Were

ot for the policies of various governments, there would xist some local and regional monopolies, but only rare ases of national and still less of international monopolies.

If a government aims at establishing the conditions equired for the appearance of a monopoly price, it is riven by the opinion that such a monopoly price is, under ne given situation, the most appropriate solution of an conomic problem. This opinion may be questioned. But is nonsensical to attack the monopoly as such and not ne policy which results in the creation of a monopoly.

This country has promulgated laws which are ntended to prevent the formation of monopolies and rusts. The authorities are eager to enforce these laws. But, n the other hand, the United States is a party in interational agreements, the ostensible purpose of which is nonopolistic restraint of output and trade in essential raw naterials and foodstuffs. Moreover, the agricultural polities of the New Deal were unambiguously directed at the ame goal.

The outstanding fact which we must keep in mind : There is in the free enterprise system no natural ecoomic tendency toward a general substitution of monopoly ower and monopolistic restraint of trade for competitive rices and the other features of a free competition.

Our national policies often conflict. On the one hand, we ban and enforce laws against monopoly. On the other hand, in both foreign and domestic policy, monopolies are sometimes created or encouraged.

But the free enterprise system has no natural tendency toward substituting monopoly for competition.

XIII

MARKETING

Marketing is an age-old business.

THE practice of exchanging goods and services is age-old. Besides the local and domestic trade of each country, international trade develops very early. The services of the masons of Tyre were used to build the Temple of Solomon. The riches of India and Persia were being sold in Phoenicia before Alexander defeated the Persians at Arbela. The Crusaders of the eleventh century, clad in burlap and homespun, saw the silks and jewels of the East centuries after they had become the luxuries of rulers great and small throughout Asia. As Western horizons were widened, new wants were inspired; old trade was stimulated and new trade was created. The search for the riches of India was intensified. Trade routes by land and by sea were opened as profits developed.

Accumulated restrictions on trade were removed in America when national independence and unity were won.

As trade grew, taxes and other restraints were placed upon it. The Stamp Act and the Navigation Acts of the British, which imposed annoying taxes and put legal restraints upon colonial commerce and industry, were leading factors in bringing on the American Revolution. In the Constitution, the founding fathers removed most of the restraints on trading within our national boundaries and established a free economy. This stimulus to trade eventually developed production and distribution beyond Asiatic and European conceptions. In America, possessions beyond the reach of Renaissance princes became the common property of modern man.

The American marketing system is the direct result of the internal freedom this country has enjoyed. This freedom, guaranteed by our Constitution from 1789, was largely uninterrupted until the 1930s. It has had immeasurable effects upon America's wealth, growth, and productive power. It has permitted the markets to provide more quality goods, in greater variety, at lower prices, with more conveniences, than the marketing system of any other nation or people.

The system developed in freedom has become the most efficient in the world.

The American system of marketing and distribution is appreciated most by those who have observed the lack of such a system in other lands. Travelers and soldiers returning from all parts of the world have been in nations where a tin cup serves countless purposes; where a sheet of corrugated galvanized iron is currency itself; where an abandoned rubber tire, a piece of steel, a sharp blade, or any of the countless commonplaces in the American marketing system are almost priceless to backward peoples who have no metal economy of their own. Nor in more advanced countries have observers found marketing and distribution on a plane of efficiency as high as our American system has reached.

Wealth in Oriental countries is ill-distributed and not put to productive uses.

Much of China's movable wealth before World War II was hidden in out-of-the-way places or was on deposit in foreign banks at the treaty ports where it was safe from tax raids, mandarins, and war lords. In India, princes and potentates live in golden splendor while most of its 400 million live in squalor and poverty. The wealth of the rich is invested in imperishable jewels and gold, but not in manufacturing or distribution as in America. It took a Stilwell to force the first road connecting India with China. And Americans built the first pipe line from India to deliver gasoline to the Chinese.

In the United States income is widely distributed and goods and services freely exchanged.

Early in 1943, Henry Morgenthau, Jr., Secretary of the Treasury, said: "Eighty per cent of the income received in the United States is paid to people with incomes of $5,000 and less." This has long been true. The income of labor is 72 per cent of the national income. An equitable distribution of wealth is possible only where workers, managers, and investors are equally free to buy and sell their services and products and where each receives his own reward. The ways and means by which the total production of the nation is distributed to the recipients of the national income is the subject of this chapter.

Marketing Defined

It is not always easy to draw a sharp line of distinction between the marketing and the production of goods. Certain activities modify materially the form of

ıse of many commodities; as, for example, the changes n wheat or cotton from the time these commodities leave :he farm until they reach the ultimate consumer. Some :hanges, on the other hand, do not substantially affect form or use, but are designed for convenience in distribution. The former changes would properly be regarded as a part of production while the latter would fall into that of mar-keting. The marketing process would, therefore, include the following: assembling, storage, grading, packaging, risk management, merchandising, standardization, buying, selling, and advertising.

Marketing and production operations are not always easily distinguished.

Marketing, for the purposes of this chapter, may be defined to include the functions and business activities of all those who are engaged in purveying goods from those who extract and fabricate the materials to those who consume the goods. Some markets are similarly engaged wholly in the distribution of services rather than of physical goods. Marketing involves those productive activities which are concerned with the changes in ownership of goods and services which take place between the makers or growers and the users. Marketing thus creates what the economist calls time, form, place, and possession utilities. In this discussion we have limited ourselves largely to those activities or questions which are concerned with the buying and selling of goods. From production through the marketing processes utilities are added by informing buyers of the products and services; by providing storage, safe-keeping, financing; by repackaging and otherwise making goods more acceptable and useful; by delivering to the point of sale quantities wanted at the time wanted; and by assuming the risks and costs involved in these processes.

Broadly, however, marketing may be defined as the functions by which goods are transferred from producers to consumers.

Human wants express themselves principally in consumer goods. They determine the demand for industrial equipment, for raw materials, for all the articles or goods bought and sold in the intermediate and industrial markets. These needs and wants are met by producing goods and services and bringing them to the markets. Businessmen realize that marketing processes have much to do with the ultimate sale of goods. They look, therefore, to marketing experience to ascertain what goods should be produced, and when and how much. Hence the producer or

Human wants determine production and distribution, and through marketing experience information about demand is conveyed to producers.

maker will give careful consideration to the characteristics which will enable him to sell the goods as promptly as possible after they are produced.

Values are added not only by manufacture but also by marketing.

The Census, in its reports on production, speaks of "value added by manufacturing." Values are also added to a product through the processes of marketing and occur when a product is taken from where it is plentiful to where it is scarce; when a product is made available to those who seek it, as on retail-store shelves and displays, at fruit and vegetable auctions, or on roadside hotdog stands; and when it is stored in times of surplus and carried over to times of relative dearth, values are added also by mere facilitation of change of ownership.

The values are determined in the processes of exchange.

The value of any item offered in the market place is determined through exchange. The processes of exchange and the organization methods, agencies, and techniques used to effect exchange constitute much of the marketing process.

Record keeping and financing are integral with production and marketing. Record keeping determines the commitments and agreements by which goods flow from production to consumption. Financing supplies the money and credit which lubricate and accelerate the movement of goods from production to consumption. Ofttimes the financing function is handled by specialized institutions, as is also the risk-taking function. The motion of a hand or the head at an auction, a word over the telephone, and other expressions of assent and credit, move goods.

Development of Marketing in America

Marketing in America moved west with the migrations.

Marketing in America moved west with the migrations. In the eighteenth century, emigrants followed rivers rising in the Appalachians, and emerged in Kentucky, Tennessee, and Ohio. Farther west, the fur traders followed Indian trails. Hunters and trappers followed fur traders. In successive eras came cattle raisers and crop farmers; then merchants. Cities grew up where trading posts had begun. Where human wants were expressed, traders brought in the needed supplies. In the beginning, the western settlers depended on the coastal colonies for supplies,

but, in time, tools and implements, clothing, shoes, iron, and firearms that came first from New England and New York were manufactured in Ohio.

In colonial days, the farmer often produced his own feed, tanned his own leather, built his crude wagon, and with his neighbors "raised" his barn when he had crops to put in it. The family spun and wove wool or cotton, sewed and knit garments, and made soap and candles. The man handy in making his family shoes made shoes for other families, who in turn helped him with his crops or his logging. As communities grew, shoemakers, coopers, wagonmakers, blacksmiths, and other specialists found ample occupation. This specialization of work brought about increases in individual production.

Production increased with organization and specilization, so also did marketing.

When, with time, larger enterprises were established with improved manufacturing techniques and quantity production, the growth in total output of goods was tremendous. The expertness of specialized workers, the use of mechanical power and efficient machines, and the economies of quantity purchases of materials enabled producers to offer goods at lower prices.

Lower prices and better distribution increased consumption.

The division of labor needed for production was needed also in marketing. Individuals learned to specialize in certain parts of the marketing process. More intelligent and effective sales effort and advertising programs increased consumer demand, while lower prices permitted greater consumption. Greater consumption brought new and better tools for agriculture and for manufacturing. This cycle of changes bringing constantly increasing benefits to manufacturer, worker, and consumer is the process that has built American production and constantly raised our standard of living.

Mass Production and Improved Techniques

The growth and expansion of the country have made necessary large production and selling units to cope with the increased demands for such products as may be marketed over wide areas of the country.

As manufacturers, growers, and fruit and vegetable exchanges demonstrated their abilities to produce and sell

Nation-wide producing and selling units were developed.

goods at a profit, it became possible for them to accumulat capital, in their own operations or by selling shares to th public, and thus to expand their production still further As a result, many small localized corporations through th years have become producers for wider markets.

A limited number of products, it is true, are sold o marketed on a country-wide basis. The acceptance of thes products, however, is sufficient to stimulate great nationa corporations selling in the major parts of the market. Th market for an electric washing machine or an electri vacuum cleaner is limited to the areas that have electricity Those areas are rapidly spreading.

Limited markets were better covered, and goods were constantly being transferred from a limited to a general market, through the efforts of manufacturers and traders, with the aid of changing conditions.

Originally the automobile market was limited to th areas that had good roads, but good roads have now becom a national network. The market for fresh fish is limite to the area over which fish can be transported in ice. A a result, seafood sales are greatest in the coast areas, whil lake fish have their main markets inland; but the cannin of fish now enables packers to reach the total nationa market. Thus the limited markets are constantly bein expanded.

Freight rates are an important handicap to th movement of bulky goods. Bricks made from local sand and clays often sell well within freight zone limitations and sell poorly, if at all, outside of them. Manufacturer take into account the limits on the marketing of thei goods imposed by freight tariffs and regulations. Branc factories, assembly plants, and warehouses often are estab lished, after analyses of these limitations, by manufacturer who would serve the total national market.

Mass production has tended to concentrate produc tion in many important lines into fewer and larger estab lishments, resulting in greater efficiency and lower costs But these concentrations of mass production, for exampl in the motor-car fields, the textile industry, and the elec trical and radio industries, to mention only a few, draw upon the production of thousands of different kinds o industries in other communities. A single motor-car com pany shared war work with 18,375 concerns. Anothe former motor-car company depended on 8,079 individua

subcontractors.[1] The automotive industry paid out to subcontractors and suppliers for war work 56 cents of every dollar received.[2] Although the automotive industry is located mostly in the Midwest, practically the whole nation contributed to automotive war jobs. Supplies and subcontractors were located in 1,375 cities in 44 states.[2]

All of this is a part of the marketing process, even though it is the selling of one manufacturer and producer to another in the progress of preparing a finished product for the market. The same assembling, processing, and fitting go on in all manufacturing, large and small, and then finished products are ready for another step in the marketing organization. Motor cars, for example, may be manufactured at a main factory in Michigan but assembled at other points convenient for distribution to the final buyers.

One industry creates or depends on many others, and so much trade is developed between industries.

Complexity of Marketing

The American marketing system distributes goods and services to every American, wherever located, in qualities and quantities agreeable to the buyer and at prices the buyer is willing to pay. This distribution carries goods direct from factory to the consumer, or through wholesalers or retailers, exactly as experience with the marketing conditions of each product may determine. In this procedure, manufacturers may buy their supplies and equipment direct or through jobbers, brokers, or agents, or in some instances may create their own equipment and supplies.

Marketing has become more and more complex.

In modern marketing, growth is possible only when the contributions made to living standards are constantly increased. The increases can be in quality, in quantity, in packaging, in service; but, in the instances where none of these contributions is made, deterioration of the marketer's position sets in. This deterioration accelerates in direct ratio to the indifference of the manufacturer or tradesman to his market.

It grows as living standards are raised.

[1] "Automotive War Production," published by Automotive Council for War Production, April 1945.

[2] *Ibid.*, October 1943.

Like manufacturing, marketing must meet the demand for more and better goods at lower prices.

In modern marketing the demand for better quality, greater quantity, and lower price is constantly met by those who survive. To meet this growing demand, both manufacturing and marketing units must be expanded. New models of a radio or an automobile or a washing machine may require new buildings to obtain economical production layout, new tools to obtain low costs, so that the product going to the consumer will move in large quantities and so that the costs of manufacturing and marketing can be lowered and in considerable degree paid out of the economies from the greatly increased quantities handled.

Economic Groups Interested in Marketing

Three main groups are involved in the marketing process: producers, consumers, and distributors.

There are three principal groups involved in the marketing process: the producer, the consumer, and the various distributive or selling agents.

The Producer and the Market

The producer must produce the product to be sold. If the product, when produced, is unsalable, the risk and loss are the producer's. If the product is unmarketable it then must be revised to fit the market or be withdrawn. The instances where a new product has fitted the needs of the consumer on first issue are rare and small in percentage.

The producer must turn out goods to fit the market and furnish to distributors what consumers want.

When manufacturers guess right on new products the gains to be made are specialty rather than staple profits. The struggle to offer new goods and services is endless. The first consideration must be what the customers will buy. The manufacturer can introduce new lines, new designs, styles, and patterns; but these must be secondary to meeting the current market demands. If a dress or a book succeeds, it may be offered at several levels of the market. If it fails, it quickly disappears, and only the producer knows the costs of guessing wrong.

The manufacturer must furnish his wholesalers, retailers, and jobbers products that the people want. He has little room for his own fancy.

Advertising and selling are necessary, but sometime

they seem to underestimate the consumer's intelligence. The costs of introducing a new line of products to consumers may be too great for both the manufacturer and the marketing organizations. For these reasons the manufacturers who succeed best are those who push well-accepted lines of product to large volume. The great variety of common necessary goods are bought by consumers as a matter of course if they have the money. When it comes to introducing new goods or improvements, or selling the consumer a new variety or style, a presentation of the correct facts about quality, usefulness, and price in comparison with those of substitutes or other articles seems the best way to approach most buyers. But results are often obtained by comic advertising, catchy names, and slogans that the buyer will remember. These may be helpful. But in the final results the consumer will continue to buy the goods that serve his needs and purposes best.

New products can be introduced only with intelligent forecasting and promotion.

In any year, hundreds of thousands of people attempt to enter the market. They may undertake the manufacture and sale of some new product or of a staple product. Some succeed; most of them fail. Or they may invest their savings in grocery stores, news stands, candy stores, restaurants, or other small-scale distributive enterprise. So many guess wrong that in any fair-sized city brokers specialize in reselling stores of each of these classifications, offering one man's loss as the basis for another man's profit.

More new enterprises in manufacturing and distribution fail than succeed.

The Consumer

There are two classes of consumers: those who use or consume goods or services only to satisfy personal or household wants, and those who use them to facilitate the production or fabrication of other goods and services. Manufacturers and other producers as well as the various marketing agencies compete for the consumer's dollars and good will, in whichever class he belongs.

"Consumers" are of two classes: buyers of either production goods or consumption goods.

The consumer is reached through many channels such as advertising, salesmen, printed descriptions, and the radio. Now television promises to play a new and important role in keeping the consumer informed. All this

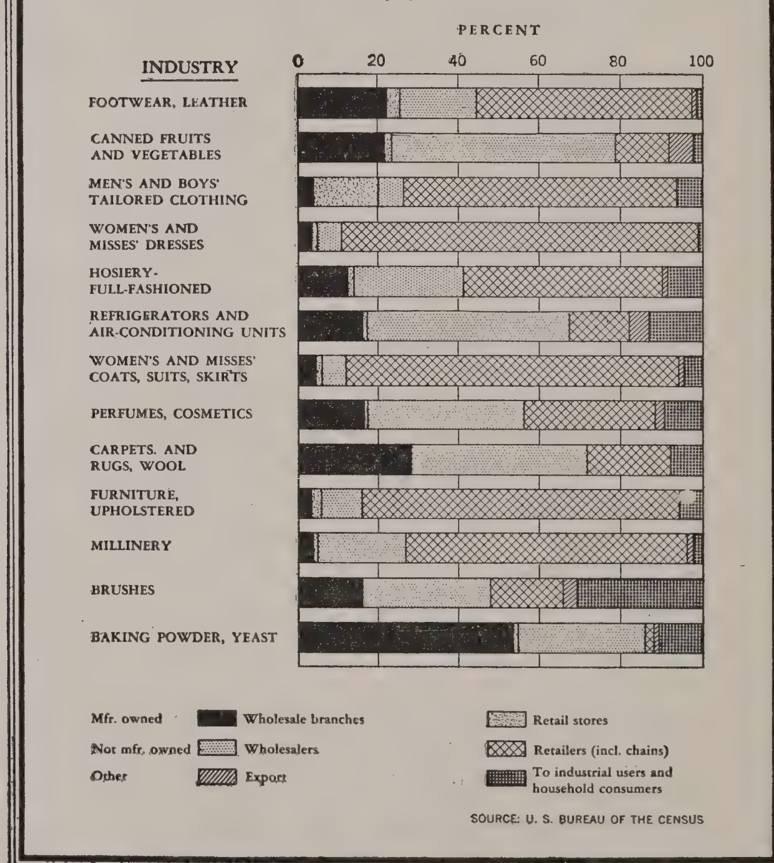
There are many ways of reaching

consumers and expanding wants.

flow of information and appeal to the consumer has the primary purpose of inducing him to buy more goods and services. No doubt these influences are constantly expanding the consumer's wants. In turn the consumer is a great source of information for wide-awake producers, merchants, and marketing organizations.

Chart I

MANUFACTURERS' SALES, PERCENTAGE DISTRIBUTION BY CLASSES OF CUSTOMERS AND BY INDUSTRY IN THE UNITED STATES 1939



But the consumer is the dominating influence in the market.

Despite the effective work of sales and advertising agencies, fluctuations in the consumer's buying power and inclinations are a dominating force, in the long run, in determining both the volume and the prices of goods and services. Producers, merchants, salesmen, and advertising firms may exert a great influence over the

consumer's choice of goods over a period of time. By a high-pressure selling and advertising campaign, it is possible to oversell a customer or to sell him shoddy goods that do not meet his standards; but the speed with which he shifts to other goods is generally convincing proof of the consumer's influence in the marketing process.

The salesmen who teach consumers how to use a product and convince them that they should buy a product though it is new, because of its usefulness, have expanded the consumers' wants. New products are generally put on the market by direct selling and advertising campaigns to influence the consumers. The producers and merchants who insist on clinging to old established lines may find that the customers are doing business elsewhere. The cost of informing and appealing to the consumer and the cost of understanding his changing demands are part of the costs of marketing. The ultimate consumers may be difficult to satisfy, but their buying is usually less scientifically directed than is that of those consumers who buy to produce other goods and services. The distribution of manufacturers' sales among consumers is shown in Chart I and Tables 1 and 8. The number of retail stores and amount of sales for major business groups are given in Table 7 (page 670).

Both producers and merchants must take account of the changing demand of consumers.

The Distributive Agents

Many individuals, firms, and organizations are engaged in marketing or distributing the goods which have been produced. These middlemen serve to bridge the gap between the producers and the consumers. They select and gather goods from many quarters and make them available to consumers when they are needed for consumption. These groups have been classified in different ways, but for the purposes of this discussion they may be grouped as follows:

1. Those who sell to other agents for resale
2. Those who sell to ultimate consumers
3. Those who sell to business or industrial concerns which will use the goods for the production of other goods

The distributors may be classified as sellers to other agents for resale, sellers to ultimate consumers, and sellers to producers.

The work and activities of these three groups or

TABLE 1.—DISTRIBUTION OF MANUFACTURERS' SALES[1]
(In percentages)

Class of customers	1929	1935	1939
Total	100.0	100.0	100.0
Sales to or through own wholesale branches or offices	17.5	21.7	23.8
Sales to or through own retail stores	2.4	2.3	2.8
Sales to wholesalers and jobbers	32.8	26.2	26.5
Sales to retailers for resale	18.0	21.1	19.9
Sales to industrial and other large users	27.5	26.4	25.2
Sales to consumers at retail	1.8	2.3	1.8

[1] Comparative information is limited to those industries which are directly comparable in 1929, 1935, and 1939 and is based on the following totals:

	Number of establishments	Sales, millions of dollars
1929	107,701	40,890
1935	94,759	26,460
1939	104,474	33,906

SOURCE: Bureau of the Census, *Census of Business*, Vol. V, Distribution of Manufacturers' Sales, 1939, p. 7.

TABLE 1A.—PERSONS ENGAGED IN MARKETING (1940)

A—*Industry group:*	
Wholesale and retail trade	7,538,76
Advertising	71,51
Transportation	2,177,67
Total	9,787,95
B—*Occupation*[1]:	
Proprietors, managers, and officials:	
Eating and drinking places	265,03
Wholesale and retail trade excluding eating and drinking places	1,639,67
Finance, insurance, and real estate	174,66
Business and repair service	82,28
Transportation, communication, and utilities	134,23
Salesmen:	
Canvassers, solicitors, hucksters, peddlers, and women news vendors	141,84
Newsboys	53,31
Insurance agents and brokers	239,14
Real-estate agents and brokers	111,11
Other sales agents and brokers	614,27
Other salesmen	1,745,59
Others:	
Shipping and receiving clerks	200,66
Laborers:	
Railroads (including repair shops)	211,66
Transportation (except railroads)	83,48
Wholesale and retail trade	202,81
Longshoremen and stevedores	63,24
Waiters and bartenders	640,49

SOURCE: Bureau of the Census.

[1] B is less inclusive than A, as not all occupations listed by the Bureau of the Census are classified according to industry. This therefore does not incluc bookkeepers, stenographers, and others connected with the field of distribution.

gencies cover a large part of the field of marketing. [hese agencies may do extensive and careful planning and dvertising to promote or increase the demand for many ypes of goods and services.

Over 20 per cent of the gainfully employed are engaged directly in some form of marketing and distribution.

The 1940 census reported 45,116,083 persons mployed in the United States. Of this group, 9,787,954 vere engaged in marketing and distributing activities. [able 1A shows that this number included 7,538,768 in vholesale and retail trade of all kinds and 71,515 in adverising; in addition to these workers, 2,177,671 were ngaged in transportation, a large share of which repreented marketing activities. Thus, in 1940, notably about 0 per cent of the workers were engaged directly in some orm of marketing and distribution.

In the census classifications, it is not possible to elate, in every instance, the particular occupation of vorkers to the industry in which they are employed. Nevertheless, the figures given in the lower portion of the able show a number of occupations under the general lassification of proprietors, salesmen, and others whose ccupations are in the field of marketing. It is interesting o note that there are 141,846 persons listed as "canvassers, olicitors, hucksters, peddlers, and news vendors," even hough many people believe that these types of occupaions have been largely outmoded. That a considerable ortion of the distribution of the country is carried on y small operators is indicated by the fact that there are ,639,672 proprietors in wholesale and retail trade, xclusive of eating and drinking places, and that there re 265,036 eating and drinking places.

Undoubtedly there are many other persons who are t least indirectly connected with the distributive services, uch as employees in manufacturing concerned largely vith sales, public utility employees, employees of comnercial banks, government employees in divisions lending o marketing cooperatives, and workers in various other ervices who are classified under occupations which are ot primarily in the field of distribution.

Marketing Techniques Must Vary

Services

Techniques vary according to the goods or services marketed.

The marketing of services requires special personal techniques.

Services and their marketing form an importan segment of the total economy. They include automobil and radio repairing, the barber and beauty shops, th laundries and dry cleaners, concessionaires of variou kinds, tailors and valets. The public utilities offer service in connection with the heat, light, and power that the distribute. To succeed in marketing personal service ability of high and unique quality is required. A news paper may be bought on a street corner for the smil that goes with it or a tailor may be patronized for th expertness of his cutting or fitting. These services usuall develop on a personal basis and may flower or fade wit the individuals who offer them.

Consumers' Goods

Consumers' nondurable goods are usually marketed with rapid turnover and small profit.

Goods may be divided into consumers' goods an industrial goods. Goods destined for the ultimate consume are usually in a form ready to be used.

They may be nondurable goods, such as a loaf o baker's bread, a brick of ice cream, "ready-made" clothing, soap, shoes and stockings, socks. These are bough at brief intervals and constantly replenished. In all thes lines, the profit is small and the turnover rapid. Som consumers' goods are so standard that tremendous invest ments are justified. The distribution of milk and th baking of bread for any city are instances of large enter prises.

Consumers' durable goods move slower, require larger margins, and often special selling skill.

Consumers' goods include also durable and semi durable goods, which make up a large part of the othe volume of retail sales—in some years estimated as over 2 per cent. These include bicycles, automobiles, radios, wash ing machines, furniture. Of course houses also are durabl goods though not marketed through the ordinary retai trade.

Consumers' goods must be sold through many out lets. Such durable goods as automobiles, pianos, an electric refrigerators are sold on a technical or persona

basis, and sometimes by both methods. To sell these high-cost units requires more skill than the average salesman possesses. The refrigerator may require an engineer; the phonograph may require an expert in musical history and in available records; a radio sale may be made by salesmen's patter, but the installation requires a radio mechanic or engineer. And many types of nondurable goods also, whether sold in department stores, specialty shops, or other retail outlets, call for special understanding on the part of salesmen. Drugstores must have licensed pharmacists; apparel stores have salesmen who are also counselors; and so on. On the other hand, some consumers' goods such as candy, gum, cigarettes, soft drinks, sanitary napkins, drinking cups, towels, and soap may be marketed out of vending machines. The consumer obtains assurance of quality, a known price, instant attention, sanitary packages. The vendor obtains freedom from pilfering, gives prompt attention, and keeps customers' good will.

Both classes of goods show great variety in the degree and kind of selling skill required to market them.

Industrial Goods

The sale of industrial goods frequently requires technical skill. The man who sells warehouse steel alloys has metallurgical experience. The machine-tool salesman emphasizes the effectiveness of the tool, and the tool is sold on a guarantee of its production results. The salesman must ofttimes be able to operate and, at other times, install the tools.

Industrial goods—sold to industry—are often marketed by technical experts, either from the factory or from supply companies.

"Engineered" industrial goods are made to the buyer's specification. The order may be for turbines or dynamos, electric overhead cranes, pumps or air compressors, bulldozers, or industrial tractors. All such items by classes are sold direct by the makers to the users. Small industrial goods of a repetitive nature are sold either by industrial companies direct or by mill supply, plumbing supply, heating and ventilating, and other jobbing organizations.

Some are made to buyers' specifications.

Marketing Functions

Marketing functions include all the steps, other than those of manufacture, necessary to move an item

Marketing functions in-

clude all steps, except manufacture, in moving goods from initial producer to ultimate consumer.

along the path from raw material to completed article and into the possession of the consumer. The most important marketing functions are

Buying	Storage	Financing and risk-taking
Selling	Simplification	Market information
Transportation	Standardization and grading	

Each of these subjects is discussed separately.

Buying

Buying requires many specialized skills and much native ability, with a wide range of information.

Buying involves many activities. It requires efficient use of capital invested to carry adequate stocks of goods. The buyer must know and make contact with various sources, bargain carefully and capably in negotiating purchase contracts, and keep the "out-of-stock" reports to a minimum. He must buy to obtain the largest number of turnovers of his capital; excesses of inventories often peril the credit of even well-managed companies.

Goods should be bought in the ratio in which they are sold and used. The buyer must follow up his purchases in order to secure prompt deliveries. Special discounts and anticipation of a rising market often lead to overbuying and unbalanced inventories. The buyer needs a thorough knowledge of cash and trade discounts, a familiarity with prices, ability to judge the probable future trend of prices, and a native ability to bargain.

Selling

Selling is an ancient and honored art, with all gradations of requirements as to knowledge and persuasiveness.

Selling is the art of influencing prospects to the point of purchasing goods and services. Columbus sold Ferdinand and Isabella on the riches of the Indies. Through the ages salesmen have had goods fabricated to meet consumers' demands. They have transported goods from where they were plentiful to where they were scarce.

In our own time, selling is an honored art. It requires great ability and training to sell an encyclopedia to a lady on a doorstep. In a five-and-ten-cent store the only ability required is to put in a package the ten-cent

article that is purchased, ring up the cash register, and remember the prices. There are all gradations of selling ability required in the business of marketing goods and services.

Personal Selling

Personal selling has the advantages and disadvantages of any personal interview. It presents an opportunity for making a good personal impression, also of developing personal antagonism. Personal selling is the most expensive and one of the most effective kinds. The personal salesman answers questions that cannot be catalogued. He lends persuasion and personality to the sales appeal. The requirement of salesmen (and saleswomen) with sales personalities adds greatly to the cost of retailing and other sales costs.

Personal selling stakes sales on the qualities of personality; it is the most effective and the most costly.

Mail Selling

Many corporations and individuals sell by mail. In such selling, complete answers to all questions, together with all facilities for making the purchase, must be available in direct-mail advertising. The best example is the mail-order catalogue. Thousands of corporations sell through direct mail without personal salesmen.

Mail selling is widely used, must anticipate questions and give ample information.

Sales Promotion

Sales promotion combines the functions of salesmen, the advertising department, and the customer service staffs to make profitable sales. Its normal functions include fashion shows, special sales, book reviews, product demonstrations, exhibits of all kinds, as well as printed and radio advertising and personal selling.

Institutional selling is carried on by individuals and corporations. It sells the good will and good intentions of the advertiser. It may feature new electronic-eye doors that replace revolving doors rather than merchandise of the shop. It may feature rest rooms in the nursery department rather than layettes or blankets or teething rings.

Sales promotion uses many mediums. It includes institutional selling as well as promotion of products.

Advertising

Advertising attempts to influence or arouse the interest of prospective customers in a product in order

Advertising, a phase of sales

promotion, is used for goods, services, institutions, or ideas.

to increase its sale and distribution. It seeks to build good will for products and services; for institutions and people. An advertisement may be defined as "any paid, non-personal presentation which tries to make people react favorably to goods, services, or ideas that are offered for sale."

It cannot succeed long unless quality of what is offered is satisfactory.

The advertising of poor-quality goods or bad services can be successful, if at all, for only a brief period. Successful advertising automatically depends largely upon satisfaction and improvement in quality of goods and services. It may also reveal, in the response it evokes, where improvements must be made if the product or service is to survive.

Generally it is used to supplement other factors in the sales process.

Since an aggressive sales campaign usually involves advertising, sales promotion, and personal selling, advertising may properly be regarded as only one part of the selling process, but many products are sold without sales organizations of any kind. Advertising is less likely to create demand for a product than to stimulate acceptance. It introduces salesmen. It supplements the sales story. It informs the consumer and reduces his resistance to purchasing. It is designed to increase the number of users as well as enlarge the consumption of current consumers. It may lengthen the buying season of a given product or encourage a larger volume of sales.

It is a standard reliance of virtually all marketing.

Advertising is as staple as wheat or potatoes. It is used by virtually all who appear in the market place, be they manufacturers, wholesalers, retailers, agents, or other participants. States, cities, counties, governmental bureaus, such as RFC and WPB, use space and radio advertising to publicize their wares and services.

Only advertising by all methods could have accomplished the marketing of seven successful bond drives by our U.S. Treasury. Only advertising could have made Idaho potatoes known in Connecticut or California. Only by advertising could the quality of Idaho potatoes have commanded the high prices at which they sell. Only advertising could have taught the growers so quickly the advantages of proper grading, standardizing, packing, and shipping that were needed to meet the desires of consumers in the national markets.

If a product really meets a general want, advertising can push it far toward nation-wide acceptance.

If and when the product consists of goods or services that the market wants, the market will respond to the advertising with increased quantity purchases which will, in turn, permit lower manufacturing or growing costs. The advertising of lower prices develops further increases of the quantities, until an automobile, a radio, a piece of fireproof glass, an incandescent lamp, or a package of gelatine is finally bought and sold in every city, town, and hamlet of the nation. The process takes years. The risks are tremendous. The number of products that develop national acceptance through advertising are but a fraction of those that fail.

By increasing volume of sales, it reduces costs to consumers.

By some critics advertising has been considered an economic waste. This has never been demonstrated. In peacetime an automobile manufacturer may appropriate 4 million dollars (5 per cent) to advertise 100,000 cars selling at $800 each. If he spends the money in advertising, the car becomes known. If he does no advertising and offers the car at $700 through his dealers, he learns that, since the car is relatively unknown, he can sell only a reduced number, which may be 60,000. However, if he can sell only 60,000, the car costs him more to make. Therefore, as his costs rise, he is priced out of the market. In succeeding years, his sales become less by the operation of the same principle.

Without advertising many useful products would not reach wide use and would remain luxuries.

It is not possible for an automobile to be sold widely without advertising. The advertiser has several mediums by which the public and prospective consumers may be reached; for example, newspapers, magazines, motion pictures, radio, catalogues, direct mail, and billboards. Public interest in automobiles has become so great that some manufacturers have aroused public interest in their cars by skillful advertising through magazines and radio networks. Good advertising stimulates interested prospects to go in and look at the automobiles which are on display with agents and dealers. Men who have never owned an automobile in their lives, on the day they decide to buy one, find that their choice was made months or years before.

For advertising, local papers or other local media are as available to the corner grocer as national magazines or

National advertisers, however, are naturally limited in number.

radio networks are to the national food manufacturer, and are probably the most dependable for immediate returns. Advertising obtains its highest expression, however, in national markets; but the number of American corporations that sell or can advantageously use national advertising is an insignificant proportion of all American advertisers. Even in the case of those that can advertise nationally, the proportion of effectiveness to circulation is limited in any year.

The Agricultural Market

The division between urban and rural markets has been greatly reduced.

Divisions between the city and rural markets have largely disappeared. Rural free delivery brought the city to the farmer years ago. Improved roads bring the farmer to the city. Advertising has carried the story of city merchandise to the farmer. The farmer is as close to his neighbor as a telephone can bring him. Electric current has been carried to rural sections in many parts of the nation for light and power.

The Department of Agriculture took science to the farm, and county agents have kept it there. The Weather Bureau provided information for the protection of crops, and the Department of Agriculture assisted in the orderly marketing of them. It has supplied guidance, proved experience, and certified seed.

Work on the farm has been simplified by the increasing marketing of gasoline power equipment on the farm. This power may operate a tractor in the fields, saw wood, operate a hay baler, and perform a variety of other functions.

Farmers now have wider opportunity to choose what and where they will buy.

It is difficult to estimate the farm market purchases separately, and it is difficult to tell the farmer from his city cousin. The marketing processes have made the same clothes, the same foods and services, available to both. The farmer may be on the farm, but in season he is also on front porches in Southern California and in Florida cities by hundreds of thousands.

The farmer's trading is influenced by the attitude of merchants and other people in the cities or towns as well as by their location. He is freer now to choose where to trade. Modern trucks and trailers enable the farmer to

live farther away from the city and yet be practically closer to it than was possible in earlier years. The farmer's marketing is assisted by the rural press, although national agricultural magazines have grown at the expense of sectional farm papers.

Prices and Marketing

Prices, in the long run, regulate supply and demand.

Most of the great controversies in marketing center around prices.[1] It is an accepted truism that in the long run prices regulate supply and demand. When prices are too high relative to the spending power and habits of the people, the buyers soon leave the markets glutted with oversupply and prices must be marked down. Likewise when prices are so low that producers, wholesalers, and retailers cannot recover costs, production and deliveries will decline and the scarcity in the markets will soon right the depressed prices. The great leveler of both production and consumption is competitive price. The pricing mechanism may be described as the heart that moves goods into the hands of buyers at prices sufficiently satisfactory to permit the buyers to contribute with reasonable evenness to the welfare of the total economy. Prices of most goods and services adjust quickly to correct excesses in either supply or demand.

Competitive prices are the great leveler of both production and consumption.

So arbitrary price fixing retards progress.

Arbitrary price fixing is inconsistent with progress. The costs, qualities, and varieties of products on the market are always changing. Any attempt at price fixing for any long period of time slows down progress. Before the war this country had many price-regulating and price-fixing formulas and schemes. These multiplied during the war. Price formulas, price bottoms, price tops, and subsidized prices were continued after the war under the pretext of fighting both inflation and deflation. Freedom of price making in free markets is essential for free enterprise.

Freedom of price making in free markets is essential to freedom of enterprise.

The basic tenet of the private enterprise system is that the prices established in freely competitive markets determine the relative values of all things marketed—of commodities, laborers' services, capital instruments, and land. What the public is willing to buy, how much and at what prices, are set against what producers are willing to produce, how much and at what prices; and at some price—the market

[1] For a more comprehensive discussion on prices, see Chap. X.

Prices provide the necessary meeting ground for producers and consumers.

price—there is an equality between what is bid and what is offered. It is the variations of this price which regulate the scale of production and consumption. The decisions to produce or not to produce, to produce this or that, how much and when, are left entirely to the individual, to be made in the light of his forecasts of the market demand.[1]

In the competitive system, price determines the movement of goods and of money in payment for them. Fear, famine, greed, waste, experience and the lack of it, ingenuity, weather, transportation, and employment, by affecting prices, determine the movement of goods and the rate of movement in our competitive system. In free markets, a decrease in production develops a price increase if demand exceeds supply. Retarded transportation or high freight costs increase sales prices. Production gluts reduce profits to growers and marketers alike.

If the price of an article is too high, sales decline and consumption is reduced. Substitutes rush into the vacuum created. If the price of an article is too low for profit, then the producer is discouraged from producing and turns to other products until scarcity and other factors readjust the pricing mechanism.

All high prices provide umbrellas that shelter competitors. Cotton at 12 cents in 1934 was reasonably satisfactory to American growers. But, because much lower prices were satisfactory to growers in other nations, they acquired much of the American export cotton business to England and elsewhere.

Competition

Competitive conditions and functions are variously defined.

Economists disagree among themselves and also with marketing people in defining competitive conditions and functions.[2] In general, competition may be defined as that which takes place in a free market when one person or group attempts to profit from the needs of another person or group as consumer. Competitive situations vary in number and intensity with the markets.

"Monopolistic competition" occurs when somebody has exclusive con-

Monopolistic price competition is competition where one person or group has exclusive control of

[1] Article by Ray B. Westerfield in *Commercial and Financial Chronicle* June 21, 1945.

[2] See Chap. XII for a fuller treatment of this subject.

trol of production or marketing of some product.

materials, plants, and markets for some product or products. He may attempt to establish his own price by withholding his output from the market. He usually tries to set a price that will yield desirable profits; it is not necessarily the highest price immediately obtainable. Usually too high a price creates a marketing vacuum that invites competitors with similar or substitute merchandise. Too high a price destroys the monopoly. Too low a price brings bankruptcy.

But too high a price may destroy a monopoly, while a low price may increase profits.

A low price, however, often creates so many additional sales that the gross profit is greater than that obtainable from a few sales at a high unit profit. The social contribution of low price protects the competitive position of those who offer it.

There may be competition in either quality or price, or both.

Competition may be in two phases, that is, in quality and price. One consumer may buy one manufacturer's product for quality or that of another manufacturer for low price. The manufacturer must decide what his appeal will be. Unless he gives the buyer the greatest possible utility at the lowest possible price, he finally sacrifices his competitive position.

And service or confidence may counteract the competition of price.

Nonprice competition exists where price is not an important factor in the consumer's purchase. A manufacturer operating a plant that must be kept running every day must buy coal from an absolutely dependable delivery source. Therefore, the price may be noncompetitive. A housewife with a charge account in one store tends to funnel most of her purchases through that store whenever she orders by telephone. A woman seeking a gown or hat by a particular designer is likely to buy it in the department store or specialty store handling it, regardless of price.

Confidence established in a consumer's mind as the result of advertising may cause him to purchase a comparable article at a higher price. In his mind assurance of quality is often more important than price. This is true of many proprietary medicines, toilet accessories, and cosmetics. Cold cream sells for a dime and for a dollar. The difference in quality may amount to less than 90 cents, but the assurance of quality represents part of the difference.

Transportation

Transportation, as a marketing process, adds value to goods.

Goods are moved to markets by highways, railroads, rivers, canals, and air. Transportation involves movement by wagon, tramway, plane, auto truck, steamship, canal barge, ferryboat, elevator, pipe line, belt conveyer, platform truck, delivery wagon, market basket, and human hand. All these marketing factors represent additions to the value of goods delivered to the consumer.

The average distance between producer and consumer of foods in the United States is hundreds of miles. New York obtains its supply of broccoli from Texas in one season and from Long Island in another. It gets its tomatoes from Mexico, Cuba, and Puerto Rico and from the Southern states as the season advances; from New Jersey and New York state in August and September.

Billions of dollars are invested in transportation equipment and terminal facilities.

In Louisiana, a strawberry grower, by putting a postcard in the bottom of each basket, found that, as his strawberry season advanced, his product was distributed into the far reaches of western Canada and into practically every state in the Union. Peas are sold in the New York City market every month of the year. They are shipped from Florida, Texas, California, and more northern areas as the sun moves north. The price in the market tends to decline as the transportation costs are reduced.

The investment in transportation equipment to assist the marketing processes totals billions of dollars. The terminal facilities total other billions of dollars. The value of the goods that move through the transportation and terminal organizations is greater than the total of both. Delays in transit may cause important losses of fruit and vegetable shipments.

It is thus assured that markets will be available to absorb production and that consumers will have a supply and choice of goods.

Under normal conditions, transportation assures all factors operating in the American economy that markets will always be available and that production can be moved into the sections that will absorb it. It assures the consumer that goods will always be plentiful, that selection will always be possible, and that the savings developed by competition will be brought within reach of the total market.

Storage

In the marketing process, many products are stored ntil the market is ready to receive them. Storage may be efined as the marketing function which involves the olding and protecting of goods from the time they are roduced until they are consumed. This storage may be n a farmer's barn, granary, cellar, warehouse, yard, cold-torage plant, "deep-freeze" unit, on a merchant's helves, in consumers' pantries, in oil tanks, etc.

Storage, as a marketing function, holds and protects goods between production and consumption. It is the time element in marketing.

Storage is the time element of marketing. Storage nd turnover are antithetical. Finance and storage are nseparable. Branch factories and assembly plants are artial solutions of the storage problem. Warehouses offer elivery service, mailing service, collection service, etc. Varehouse space is computed on a square-foot or cubic-oot basis through time.

It requires warehouses, elevators, and other facilities.

Manufacturers in the East ship goods to the West hrough the Panama Canal to California in advance of heir intended use. Bonded warehouses at important ter-ninals store goods on which money may be borrowed. Cooperative elevators and government elevators receive rains on which government loans may be granted. In ome instances, the grains may be stored and bonded on he farmer's premises.

In the marketing processes some agency or factor needed to preserve and store goods produced in one eason to be used in another. The excess of milk produc-ion may be canned and warehoused, the excess of egg roduction may be dehydrated and stored. Lake Superior on ore is moved in summer and part is stored for abrication into steel in winter. Coal moves from the lower ake ports in summer to be sold for winter use in the Northwest.

The cost of storage is an important element in the narketing of many goods. The tendency is to keep inven-ory commitments at the lowest possible level, but the alue of many items is greatly enhanced through storage.

The cost of storage is a substantial item in the marketing of many goods, but in general

In recent years, frosted foods have become impor-ant absorbers of fruits and vegetable crops as well as of he meat supply and the fish catch for the American

it saves crops, reduces gluts, staves off shortages, and raises the standard of living.

market. The products are purchased in the field or at the piers, are prepared for table use, and are then frozen instantly. They are sold principally "out of season" when the demand is greater and the price is higher.

Storage is also the preserving and convenience factor in marketing. Its use saves crops, reduces gluts, and helps to stave off shortages. Storage reduces delivery time to all who use warehouses. Storage expands the power of a market to absorb a product by preshipments. Storage whether in can, "deep-freeze," terminal, or elevator reduces costs and raises the standard of living for all factors in the American marketing system.

Simplification

Simplification is the prerequisite and basis of mass production. It is indispensable to low-cost manufacturing. Products that cannot be simplified in design and manufacturing remain high in cost.

Simplification in designs has made mass production and mass consumption possible in many industries.

In most industries, the engineers, designers, and sales managers seek the perfections in one or in a few products that variety will give. The product that is offered, if sales are to be large, is, therefore, an average. It may be tested in the market to determine needed changes, but when finally marketed it is stripped of all complexities and offered to satisfy the greatest possible number of prospects and customers. A different model could be sold only at a price that the bulk of customers would not pay. Decisions on simplification are made to obtain highest net returns.

In the cutting-up trades (ladies' garments) alteration costs are high compared to original costs. The original is made to an average pattern or fit by machines, by sizes in dozens or hundreds of dozens; the alteration is made by hand on a single garment. This is equally true of men's suits and overcoats.

Low costs to the consumer require simplification of manufacturing designs so that machines can multiply the operators' effectiveness. The savings, when passed on to the consumer, develop increased orders which in turn justify higher wages to the operator as well as low cost to the consumer.

Standardization and Grading

Standardization is the process of determining the basic qualities or grades desired and of establishing specifications which include standard processes and methods of production, handling, and selling goods and services. The established grades should indicate the specifications to which manufactured goods should conform and the classes into which agricultural commodities may be sorted. Most goods are standardized at their source; manufactured ones at the factory, farm products at the packing shed.

Standardization determines basic qualities and proper grades to fit the market, and establishes specifications accordingly; also for methods of production and handling.

Grading involves the work of sorting the various units of a product into the grades or classes which have been established over a period of years. Standardization and grading are helps both to the customer in making selections and to the merchant in making sales. They are extremely valuable in facilitating the wholesale handling of large quantities of farm products, particularly fruits and vegetables.

To meet the requirements of the markets and of transit, standards have been established for practically all fruits and vegetables shipped to distant markets. The standards pertain to size, quality, edibility, color, and general appearance, as well as price.

Through standards voluntarily worked out and accepted in various industries, the quality and marketability of American products have been improved, and important economies in production and distribution effected.

Fruit and vegetable exchanges have made the oranges, lemons, apricots, prunes, peas, and lettuce of California favorably known in every state of the Union. They have made available to every American home the apples of Washington, the pears of Oregon, the grapefruit and oranges of Florida, the figs of Texas, and the strawberries of Louisiana, whether these products be fresh, dried, frozen, or canned.

Travelers in tropical countries have commented that the best oranges they can buy are shipped from our Southern states. The best apples they can buy are shipped south from Washington; the best pears, from Oregon. They have to return home to buy good bananas. In Europe before the war, the fine-quality citrus fruits of Seville and Messina were giving ground to the better grown, better graded, and better distributed fruits from America.

Where shipping of raw fruits and vegetables is not desirable or convenient, the market has gone to the fruit and vegetable growers. It operates near the growing grounds in the form of canneries, evaporating plants, and deep-freeze units. The canneries contract in advance for the products of orchards and fields and process them when the quality is best.

Trade-marks and Trade Names

Trade-marks and brand names are used as assurance of continued quality of a standard that the producer may be expected to maintain.

In colonial days when the excess production from hand looms and family factories was offered to strangers, the comparative quality and usefulness of the products offered were not readily known. Manufacturers generally met this handicap by devising trade-marks and protecting them with quality goods. In the instances where quality and price were satisfactory to buyers, they reordered goods bearing the trade-marks that stood for quality. By using trade-marks, quality manufacturers increased their sales; and, by the same method, trade-marked goods lacking quality declined in sales or in price by comparison.

For more than a century now it has been demonstrated in America that the quickest way to destroy a product or a business is to make it of poor quality, sell it at a high price, and let it be known by its trade-mark for poor quality and high price. So the use of a trade-mark or brand name on a product has come to represent a standard that the producer wishes to maintain and believes consumers will accept widely and continuously. Trade-marks have become the basis of advertising in America. The *National Marketing Review* defines a trade-mark as "a brand that is given legal protection because it is capable of exclusive appropriation; because it is used in a manner sufficiently fanciful, distinctive, and arbitrary; and because it is affixed to the product." The trade-mark is essentially legal; in last analysis, it is "in any specific case what the court in that case decides to regard as a trade-mark." A well-established trade-mark, popularly recognized as representing good quality and a fair price, is a valuable asset in the market.

The investment needed to sell to the present American market is so huge that it is a practical impossibility

for manufacturers and other originators to make money by selling an article only once to the same customer. Constant resale of the same article is needed to pay the high costs of marketing. Therefore, uniformity of quality and a price acceptable to the market are indispensable to marketing progress; and a trade-mark or brand name, once favorably known, provides some certification of the product.

Larger quantities of unbranded goods are sold, but these are mainly goods made to standard specifications.

The quantities of anonymous goods sold greatly exceeds the quantity of trade-marked goods, but quality and performance are established by specific standards. For instance, raw materials sold to industries may not be trade-marked. These materials, however, are largely bought to buyer's specifications, whether they are mainly coal, steel, silica, or sugar. The barrel of flour sold to a large baker may be unbranded, but its porosity, its fineness, its power to absorb water, its bleach tone, its response to yeast, and its value as food are all predetermined to the satisfaction of the buyer. Comparably rigid specifications are maintained for nearly all unbranded goods sold in industry.

Patents

As early as 1790, the creative genius of the people was given protection under patent laws in the U.S.A. Since that time, more than 2 million contributions to useful arts have been given the protection of the government. This protection is granted for a period of 17 years, after which the patented article or process enters into the public domain.

Patents have been a great stimulus to invention and improvement, and an important factor in economic progress.

Whatever service to the nation or important contribution to the arts may be covered by a patent is soon rivaled or superseded by improvements or substitutes devised to fill the vacuum of consumers' needs revealed by new uses under patents. The patent laws have been the great stimulus under which American industry has grown up and prospered.

Copyrights are the corresponding protection given to authors and publishers—and trade-marks and brand names are likewise protected under the copyright law.

Grade Labeling

Grade labeling has come into extensive use to give consumers information about products offered for sale.

Standardization, grading, and trade-marks durin the past several years have been very helpful to marketin agencies in selling goods, as well as to buyers or consume in recognizing and obtaining goods of high quality. Sinc many consumers did not know exactly how many products rated as regards quality, a considerable demand ha developed for more complete information about the basi characteristics of such goods. Grade labeling has been an is now being used extensively as a means for conveyin information to consumers about the products bein offered for sale. Brands have served as a device for identify ing a product and for presenting basic information. Grad labeling has been used as a practical way of telling con sumers the quality which they would not in many case recognize. Grade labels should give information such a directions for use, the formula or ingredients, and th terms of guarantee, if any. Interest in grade labelin increased during the war for the reason that many ne substitute commodities which appeared in the market ha not been standardized and took the place of goods tha formerly had appeared under given brands and trade marks.

But other forms of labeling also are used for this general purpose.

Although our interest centers largely in grade label ing at this point, it is important to realize that marketin experts recognize other forms of labeling such as informa tive labeling, descriptive labeling, brand labeling, and t some extent certificate labeling. These various forms ar generally used in some combination to convey to the buye as much information as is possible. The label or labels tha are used should indicate precisely as many facts as possib about the product being advertised.

Grade labeling has been defined as

> . . . the practice of marking merchandise, the tags attached to i or the containers in which it is packaged for sale at retail, with designation such as A, B, C or First, Second, Third, or some other s of symbols. These symbols indicate the comparative quality, usefulne or desirability of the merchandise as determined by expert apprais according to classes defined by specifications or standards, usually s up by government agencies but sometimes by trade groups or consum

organizations, generally recognized by buyers and sellers as a basis of exchange.[1]

Brands and labels should give consumers reliable information as to quality insofar as factual information can do it; but superiority may be a matter of opinion and cannot be properly rated by labels.

The information conveyed by the labels should be specific and accurate. Brands and labels should convey reliable information to buyers or consumers because they are not always able themselves to determine independently the quality at the time of purchase. For example, a label used on clothing should specify not only that the garment is made of wool, but that it is made of a certain type or grade of wool. It is not the function, however, of the label to state that one grade of wool is superior to another grade.

Maryland-packed tomatoes usually have a better color, and Northern-packed tomatoes have a better flavor. Grade labeling cannot change these reflections of climate or assist the consumer in his choice. If the identification were confined to A, B, and C, the canning industry to the south with its longer growing season would expand and the canning industry farther north would tend to contract; and the public would be unable to identify the flavor sought.

As to color, flavor, and some other qualities, consumers' preferences differ, so that fair rating on such a basis is impracticable.

The 18 sievings of canned peas cannot be identified under three labels. Chinook and Sockeye are both salmon, but the tastes are dissimilar; Brislings and Sild are both Norwegian sardines, but they are not the same fish, taste, or product. New York apples vary greatly from Washington apples in appearance, juiciness, and flavor.

Preserves, condiments, and pickles vary with the recipes from which they are made. The most expensive ketchup became the largest selling brand in the nation on its quality. Grade labeling could not improve the quality, but it could prevent the buyer from obtaining it, since the quality was not scientifically ratable.

Misstatements about a product are promptly challenged by competitors through the FTC.

In the American food and drug markets it is practically impossible for a manufacturer, even if he desired, to make a misstatement about his product, or an overstatement, or any claim for his product's quality or usefulness that will not be challenged promptly by competitors through the Federal Trade Commission. Under present conditions, the protective clauses of the Commission's

[1] Kenneth Dameron, "Labeling Terminology," *Journal of Business,* University of Chicago, Vol. XVIII, No. 3, July 1945.

Food and Drug Division and the alertness of competitors, by whom an estimated 90 per cent of complaints are made to that division, automatically provide the ablest, the most experienced, and the most resourceful policing mechanism that it has yet been possible to devise.

Consumers' organizations also provide analyses of prices and quality.

In recent years, organizations designed to protect consumers have developed in different parts of the nation. These organizations have prospered through their revelations. They have attacked many proprietary products and some food products. They have demonstrated that a large part of the price the consumer pays for some of their drugs and some foods is for advertising. They have found that some drug products are old and standard remedies under new brand names, supported by national and local advertising.

That many manufacturers have used their chemical knowledge to market common chemicals under brand names at high prices cannot be questioned. Millions of dollars are spent each year by the Federal Trade Commission to correct abuses in this regard. That all the real abuses can finally be corrected, time will demonstrate. That grade labeling can correct them is to be doubted.

There are now available to consumers as adequate means of protection in this regard as could be provided.

Time and again the veto power that the consumer exercises against all consumer products is underestimated or misunderstood. Government controls are increased and intensified each year. Together, much time and public money has been spent to educate the consumer to his need of grade labeling. After years of agitation and self-education, the proponents believe that grade labeling might be confined to fruits and vegetables in tin and glass. On the evidence it must be doubted that the government labels "A, B, and C" would offer better protection to the consumer than present grades of "Extra Fancy," "Choice," and "Standard" which have protected the consumer in the canning and preserving industry for a half a century.

Financing the Marketing Process

The many activities involved in the

The marketing process involving the flow of goods from production to consumption includes many activities such as storing, grading, packaging, assembling, buying,

advertising, warehousing, wholesaling, and retailing. Considerable time frequently elapses, after goods are produced, before they reach the consumer. Equipment must be bought and maintained, labor must be employed, storage facilities must be provided or rented, fixed capital must be invested, and many other expenses provided for, if the goods and services are to be kept flowing from the point of production to that of consumption. To cover these varied expenses and investments the marketing agencies must have access to considerable funds. The great diversity of the marketing activities makes it highly desirable that there be available various types of loans or credit in order that the financial services offered include whatever may be best adapted to the varying needs of individual borrowers.

marketing process require the investment of much capital and the provision of various types of credit.

Many individuals, partnerships, and corporations obtain financial assistance from commercial banks or finance companies to meet part of their current operations in buying goods and paying for labor during the period necessary to move the goods from production to consumption. Banks usually extend credit for this purpose on a 60-, 90-, or 120-day basis according to the needs of the individual borrower. If the maturity of the original loan proves to be too short, it may be renewed to enable the borrower to complete his marketing process. Many individuals, firms, and corporations engaged in marketing goods have been and are regular bank borrowers.

Commercial banks and finance companies provide short-term credit.

Some firms or corporations rely extensively on finance companies which provide financing on the basis of accounts receivable, warehouse receipts, or other types of security. These receivables are carried by finance companies on schedules that provide for their orderly retirement. This procedure is flexible. New accounts may be substituted for old ones. Differentials of payments may be arranged to meet the needs of various borrowers or marketing agencies.

Finance companies may lend on accounts receivable, warehouse receipts, etc.

A limited number of firms sell their commercial paper through commercial-paper houses or brokers at favorable rates to secure funds. Aside from providing funds at reasonable rates, this method has the effect of making the notes of large corporations available to small country banks as an outlet for bank funds.

"Factors" may discount accounts receivable.

Wholesalers often sell to retailers on "open-book" account.

Other financial agencies are available to meet the credit needs of marketing agencies. Firms known as "factors" frequently finance the operations of certain wholesale trades by discounting accounts receivable. They may in some cases advance funds to finance seasonal production of goods. The wholesaler also often plays an important role in financing the distribution of goods by selling merchandise to retailers on open-book account. Industrial banks, credit unions, mortgage companies, individuals, and other agencies make available limited amounts of credit or funds for the marketing of various goods.

Installment equipment financing is provided by banks and other agencies.

Installment equipment financing is provided by sales finance companies, commercial banks, industrial banks, and other agencies for the purpose of financing the sale of equipment on long terms. This type of financing is an important field for the financing of working-capital equipment needs of many organizations, even though it is not large in amount relative to all other sources of credit.

Financing the Consumer

"Consumer credit" is an important aid to marketing.

Another important aspect of the general field of marketing finance is "consumer credit," which is used in financing the goods after they have passed into the hands of the consumer. This is significant, first, because it enables the marketing agencies to dispose of their goods oftentimes more easily and promptly and thus quickens the marketing process. Second, it eases the problem for many consumers in obtaining goods which they would not be able, in many cases, to enjoy if a systematic means of installment payment had not been worked out for them.

The basis of consumer credit is fundamentally different in most cases from that of credit which is used by the marketing agencies to move the goods prior to sale to the consumer. In the latter case the marketing borrowers have the goods which may be sold and funds obtained to pay off the obligations. When the goods pass to the consumer, on the other hand, they will be consumed either immediately or over a period of time. The goods will not usually be sold to provide funds for the retirement of the debt. The ability of the consumer to pay will depend

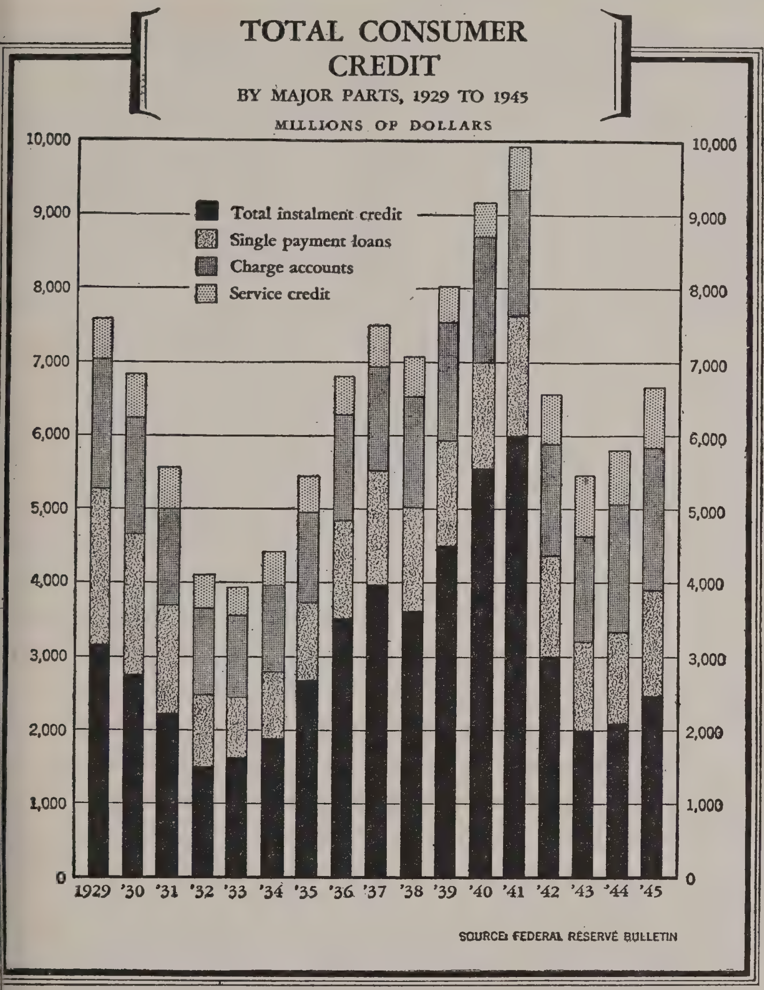


Chart II

ırgely on his current income. He may require many ıonths to pay off the obligation.

This is extended in various forms. Installment credits, charge accounts, and service credit are the most common.

Consumer credit is extended in various forms. Much f it is on an installment basis, but there are large amounts which exist in the form of open-book or charge accounts. ubstantial amounts take the form of single-payment ›ans by commercial banks or pawnbrokers. Another segıent of consumer credit is known and commonly referred › as service credit and includes unpaid bills for dental and ıedical services. Since consumer credit occupies such an nportant place in marketing credit, it is desirable to disuss it further. Chart II gives an over-all picture.

Installment credit may be cash loans made by a lending agency for the purchase of goods or sales made on the basis of payment in installments.

Installment consumer credit is usually classified as either cash loan or installment sales credit. The former represents cash loans made by commercial banks, personal finance companies, industrial banks, or other financial agencies, while in the latter the credit arises out of the direct sale or purchase of consumer goods on an installment basis. Sales finance credit is frequently used to finance the purchase of refrigerators, washing machines, or automobiles. Installment cash loans are used by borrowers usually to pay for consumer goods or to pay debts growing out of the purchase of such goods or services.

Some abuses have developed in connection with this form of credit, but the advantages to all concerned seem to outweigh the abuses.

Consumer installment credit is frequently condemned because certain abuses have developed. It is claimed that installment buying leads to extravagance—overdevelopment and overproduction in some industries and overbuying by many consumers. It is further argued that financing costs or charges are in many cases excessive and that many consumers become too heavily indebted. On the other hand, it is evident that many individual consumers do not save regularly enough of their income to pay cash for goods which they need. This applies especially to durable consumer goods which would require relatively a large sum at one time if the "pay-as-you-go" policy were adhered to. Human nature being what it is, installment buying and selling enable consumers to raise their scale of living and enjoy many conveniences which would otherwise be impossible, at least for a considerable period of time

If sellers use proper caution and the limits of buyers' income are given due consideration, most of the abuses will be avoided.

Moreover, there is convincing evidence to show tha credit abuses may be largely avoided if the seller exercise proper caution in extending this type of credit. Installment sales should be kept within limits adapted to th buyer's income and the credit should not be extended fo too long periods of time. Consumer installment credit provides a way by which many consumers may obtain usefu articles and pay for them in small but regular payment They are thus able to enjoy the goods while they are bein paid for. Consumer credit should be extended upon th basis of future income. At any rate it has had considerabl influence upon the marketing processes in recent years.

Some machinery or goods are purchased on an install ment basis which do not fall into the category of cor

sumer goods. Such credit may not be regarded as consumer credit but is very important in facilitating the marketing and distribution of this class of goods. The sale of farm machinery, commercial refrigerators, trucks, and dental equipment on the installment basis is quite common. Since these goods are used for the production of other goods or services, the credit used in financing such transactions does not fall into the class of consumer credit. The problem is still further confused because some articles, for example automobiles, are frequently used both for commercial purposes and for family consumption.

Producers' goods also are often sold on an installment basis.

The use of consumer credit facilitates the sale of such goods and should in the long run increase the volume of durable goods produced; this should, in turn, tend to lessen the cost. It must not be assumed, however, that such financing will not have an effect upon the sale of other consumer goods, for it probably lessens the output of certain other goods in the long run. It certainly does not increase the total buying power of consumers over a considerable period of time. It might even lessen the total amounts available to pay for consumer goods since the cost of such financing must be borne by the consumer. Nevertheless it should, in general, enable the consumer to have a better diversification of goods which in itself is highly desirable.

High-pressure sales on installment credit are undesirable.

It does not follow that all extensions of consumer credit are desirable. There are many abuses in the use of such credit. High-pressure sales by means of such credit are undesirable both from the point of view of the individual consumer and that of the community as a whole. There are numerous examples of the sale of jewelry, secondhand automobiles, and other goods on terms of sale which increase the cost to the consumer by 50 per cent or more. Moreover, high-pressure salesmanship may result in getting many individuals too deeply into debt. Their incomes may be so largely tied up with meeting the monthly payments that they must forgo medical or dental services or other things to the extent that their scales of living are lowered. Another abuse of consumer credit is found in the case of certain agencies which try to keep borrowers constantly on their books by encouraging

So are efforts to keep installment buyers continually in debt.

another loan when one purchase or loan is paid off. As result many users of consumer credit are kept continuall in debt; even though they have the use of goods and services which might not otherwise be purchased, the cost i increased by the financing charges. Such excesses shoul be avoided if this type of credit is to render a proper service to the community.

Although abuses of consumer credit should b avoided, a discussion of the merits and demerits of credi control does not belong in a descriptive chapter of marketing. It is the proper function of the government t do a fact-finding job and to point out the current abuses.

Many agencies now provide consumer credit on fair terms, and standards of living are raised by a proper provision of such credit.

Consumer credit is now provided for salaried an working people by a number of credit agencies, such a commercial banks, sales finance companies, personal financ companies, industrial banks, credit unions, mail-orde houses, and others. Loans are made in some cases on th collateral value of the articles financed; some loans ar made on a comaker basis; and still others are made wit no collateral or security other than the signature of th borrower and the assurance that he is earning a stead income. Through the years credit by vendors of furnitur automobiles, wearing apparel, household appliances, etc has grown with production.

Through the use of consumer credit, it is entirel normal for hundreds of thousands of men to share th ownership of the clothes they wear with the clothin agency or store that made the sale. It is possible for th bride to share for a time the ownership of her engagemen ring with the credit jeweler. The same applies to purchasers of radios or refrigerators. The increase in the marketing of automobiles could not have been accomplishe if credit facilities had not been provided by finance companies and commercial banks to assist buyers in purchasing them.

In recent years, the Federal Housing Administration and other agencies of the government have put hom purchasing on a credit basis that duplicates the metho of banks and finance companies in financing the purcha of automobiles, refrigerators, furniture, and other commodities.

The cost of consumer credit is generally greater than hat made available through commercial loans to business-nen. The higher cost is made necessary by the larger xpenses involved per dollar loaned. The loans are smaller, nd the costs of handling and collecting are higher rela-ively. This does not mean discrimination against the con-umer as such. Financing which involves the making of arge loans can be done more economically; the risks are requently less, and this is another justification for lower harges.

The cost of installment credit is more than that of ordinary commercial loans, since lender's expenses are greater.

Marketing Research and Information

The successful operation of any business involves areful planning. A manufacturer, wholesaler, or retailer nust require much marketing information, in many cases vast amount, in order to meet current and future eco-iomic problems. A wholesaler must not only plan the letails of operation but must know his sources, the lemands of future markets, and how to meet them. Prob-ems of transportation and collections must be studied. ven a small retail organization must plan for its staff, he needs of prospective customers, when and how much hey will require, and other operating problems. The nanufacturer must know what kind of goods must be nade, and at what rate they must be turned out, in order o carry on his business in the most successful manner.

A large amount of marketing information is needed by manufacturers, wholesalers, and retailers.

If the enterprise is small, the information may be athered by the president, or the manager of sales pro-notion or distribution may be relied upon to collect and nalyze the information which is needed. On the other and, if the organization is large and its products and out-ets are varied, it may require a specialized research staff r department to gather and analyze and keep up to date he information which is necessary. Some firms depend pon outside professional marketing research specialists or much of this type of information. Such agencies may e very helpful to small concerns which do not require ufficient data to warrant a specialized, full-time staff. esearch staffs of advertising agencies may also supply narketing information for their clients.

This may require the service of a specialized research staff or of outside agencies.

Market research and interpretation have become a specialized vocation.

The interpretation of market information is th vocation of thousands of specialists on all phases of mar keting. After the markets have closed, multigraphs an printing presses grind out market letters through the night so that latest information, completely interpreted, may b available to subscribers to market letters at the opening o business the following day.

Government, banks, trade associations, and other organizations supply regular market information.

The Department of Agriculture, many of th nation's banks, houses dealing in commercial paper, an business organizations of all kinds supply market informa tion to clients, customers, prospects, and subscribers. Thi mass of information assists in marketing decisions tha determine prices.

On any day of the year, hundreds, if not thousand of cars of fruits and vegetables packed in Californi Florida, Texas, and elsewhere, roll toward the easter markets. The routing of the cars is often determined b the sales made while the cars are in motion. Cars arrivin at Memphis from Texas may be routed north or east. Th following day, the shippers of the goods in the eastboun cars have the selection of the highest price in various sea board cities before final destinations are determined.

Government agencies, private research agencie trade associations, university bureaus of business researc trade publications, and similar agencies are importar sources of market information.

Future Trading and Hedging

Trading in futures and "hedging" are important in modern marketing for protection of buyers and sellers.

Trading in futures is an essential in modern industr and marketing. A "future" is an agreement by a seller t deliver at a definite price and a buyer to receive at th price a definite kind and quantity of a commodity at specific future date. On the organized speculative com modity exchanges where future trading is conducte contracts of sale run in terms of basic-grade and delive month; *e.g.*, spring wheat northern and May deliver When the agreement is made, the seller may not have t goods or know where they are to come from. The buy may not want the grade of commodity he has contract to receive. For example, the flour miller contracts

March for April delivery of flour to wholesalers and immediately buys a May future in wheat. When the time arrives for grinding the wheat, he buys cash wheat and sells out his May future. He has thus been protected against changes in the price of wheat. Selling futures in commodities even before the commodities are produced and of grades that may not be produced are necessary trade practices to maintain the flow of raw materials and semifinished goods through the process of production to the consumer.

The same sort of thing occurs elsewhere than on the organized commodity exchanges. In today's market a tailor sells a suit made to measure even before he buys the cloth. A builder contracts to deliver a house as described before he buys the materials. A cotton or a woolen manufacturer sells cloth for future delivery and buys cotton and wool to protect his commitment against speculation or fluctuations in price.

Among the better known commodities traded in the future market are the many grades of wheat, corn, rye, oats, cotton, silk, rayon, sisal, coffee, cocoa, sugar, flaxseed, grass seed, pork products, cotton oil, hides, leather, rubber, tin, copper, spelter, zinc, lead, and the whole catalogue of standardized drygoods and grocery products. The raw materials, however, are generally traded in large volume over the organized exchanges. The finished and semifinished goods are contracted for by negotiation for the most part.

Other Marketing Agencies

Brokers are included among marketing agencies, bringing buyers and sellers together.

Brokers bring buyers and sellers together by adjusting bargaining differences. The broker normally operates without stock by taking orders for other people's goods. Many food packers are represented by brokers in important markets. The brokers profit only from the goods that they sell. Other factors are auction companies, manufacturers' agents, selling agents, etc.

Jobbers sell service which

The jobber sells service and convenience. Frequent calls are possible, warehouse stocks are convenient, and the dealer can buy in small quantities. Credit for many articles

is essential to some forms of marketing.

clears through a single source. The type of jobber varie with the needs of the market. Stove markets are deter mined by the fuel situation; food markets are universa but are influenced by habits; heavy products are influence by transportation costs; the umbrella market is good i Oregon but poor in Arizona.

Marketing agencies range from mail-order houses to hucksters.

Mail-order houses compete with local merchants. I many cities, hucksters sell from wagons. They save rent heat, light, and help, but they seldom realize adequat profits. Some companies operate wagon routes througl the rural sections. Specialty salesmen sell washing machines vacuum cleaners, and life insurance from door to door Others sell adding machines and typewriters from office t office.

Chain stores and self-service stores are recent developments.

Chain-store development has come in the last 3 years. All chains represent basic merchandising concep tions. The cafeteria solves the problem of scarce help. Th self-service stores solve the problem of help and reduc losses by theft. These and other chains benefit from self help on the part of customers.

The market-facilitating agencies include many other types.

In addition to middlemen, there are a number o facilitating agencies in the marketing process. They includ banks handling drafts and bills of lading, licensed grader and inspectors, advertising agencies, freight forwarders and traffic managers.

Cooperatives

Cooperative associations act collectively for their members in buying or selling.

Cooperative associations of certain types have playe an important role in the marketing process for many decades by carrying out a certain portion of the marketing or distributive processes for a group of individuals, firms or corporations engaged in the same general type of busi ness involving the buying and selling of goods or services This form of integration is accomplished by having each cooperative act collectively for its membership in buying and/or selling.

Their success depends largely on quality of management.

The success of cooperative organizations depends i large measure upon the quality of the management. Wher the membership has refused or failed to pay for highly skilled and experienced ability and has attempted to limi cooperative managers to the members' own average leve

of income, the results have generally been most unsatisfactory.

The future growth of cooperative organizations engaged in marketing will doubtless depend upon their ability to perform economically the marketing or other functions. Classes of cooperative enterprises include

Productive cooperative enterprises
Distributive enterprises
Financial cooperative enterprises
Insurance cooperative enterprises

Marketing concerns itself only with distributive cooperative enterprises, which consist of buying organizations of consumers (cooperative stores and clubs) or wholesale buying organizations, and selling organizations of farmers or producers.

Distribution Channels

Distribution channels vary with products and consumers.

Distribution channels and methods are as diverse as the needs of the products or combination of products to be distributed by the producer, farmer, or middleman. The characteristics of the product, the buyer, and the trade or industry to be served must all be considered in determining the channels and methods which should be followed in marketing any particular product at a given time.

As to conditions of production, many factors affect choice of distribution channels. Is the product produced by a small or large number of concerns? If the number of producers is small, direct selling may not prove feasible. In the case of perishable products protection and prompt delivery are determining factors in selecting the proper channel. Seasonal goods may require a middleman who will store or hold the goods until they can be passed on to the consumer. If the volume produced be small, a general distributor, one handling several products, may be required in order to keep the distribution costs low. Goods depending on fashion, or on services covering repair and maintenance while being used, need the direct, personal contact of the distributor.

A manufacturer has choice of various channels or combinations of channels, and practices are constantly changing.

The problem of marketing different products is not simple. Different channels or a combination of channels may be necessary to meet the needs of one or more producers in a given business, trade, or industry. There are several channels by which a manufacturer, for example, may distribute his product or products, depending upon their characteristics. The manufacturer may reach the consumer directly through his own store, by mail, or by door-to-door canvassers (see Tables 1 and 8). Following are the different channels by which the manufacturer passes his goods on to the consumer:[1]

1. Manufacturer—wholesaler—retailer—consumer
2. Manufacturer—retailer—consumer
3. Manufacturer—consumer
4. Manufacturer—chain store system—consumer
5. Manufacturer—voluntary chain—consumer

Marketing channels and methods are constantly changing. Changes come from trial and error, in an extremely competitive economy. The telephone has supplemented and replaced the calls of salesmen and the use of letters. Advertising has reduced demonstrations. Improvement of quality reduces returns and allowances and, as goods become less special and more staple, quality and quantity improve, unit profits decline, and value to the consumer increases.

The "law" of highest net return to consumers determines the position a manufacturer will attain in any industry, and choice of distribution channels is made to meet this requirement.

The law of highest net return to the consumer determines the position that a manufacturer will attain and the profit he will earn in each and every industry. He can profit only as he serves. Laws and regulations from whatsoever source may wax or wane, but the consumer determines the fate of all manufacturers and others who must serve him. In conformance with this unalterable requirement, different manufacturers have devised different methods of distribution to give the consumer what he wants.

Chart I (page 632) shows distribution channels for a number of consumers' goods. Note that in men's and

[1] Alexander, Surface, Elder, and Alderson, *Marketing*, Ginn and Company, Boston, 1940, pp. 377–378.

boys' clothing most sales are made direct to retailers, whereas in canned fruits and vegetables the producer makes extensive use of the wholesaler. In women's clothing, also, most of the manufacturers' sales are direct to retailers. It is apparent that the clothing wholesaler cannot assume style risks to the same degree as the manufacturer. Moreover, it requires more retailers to distribute food than to distribute clothing. It is more economical to use the wholesaler to get in touch with this greater number of retailers. In the distribution of baking powder and yeast, some manufacturers have found it satisfactory to establish their own wholesale branches.

Charts and tables within the chapter show use of various distribution channels.

Wholesalers and Retailers

Table 2 (page 668) shows wholesale trade in the United States by type of operation. Wholesale trade, as defined for census purposes, is somewhat broader than the usual conception, as it includes manufacturer-owned sales outlets, petroleum bulk stations, agents, brokers, and assemblers of farm products, in addition to the more conventional types. The field has been divided, for purposes of presenting the data, into six major groups based upon the type of operation or nature of the functions performed as follows: service and limited-function wholesalers; manufacturers' sales branches which carry stocks; manufacturers' sales offices which are separate places of business apart from plants, but do not carry stocks; petroleum bulk stations and terminals; agents and brokers; and assemblers of farm products.

The wholesale merchant is an important connecting link between the manufacturer and the retailer. Table 3 indicates the number of wholesale establishments and net sales of the wholesale trades for 1929, 1935, and 1939. Many manufacturers sell a portion or all of their own goods direct to retailers. Retailers have in some instances taken on the function of wholesalers. Chain stores have become in many cases their own wholesalers for a large part of their manufactured goods. Nevertheless, the functions of the wholesaler are important and cannot be eliminated. These functions must be performed. The vast problems of transporting, storing, financing, and

The function of the wholesaler is sometimes taken over by either manufacturers or retailers, but it cannot be eliminated from the marketing process, and most manufacturers and retailers

are unable to provide this intermediate service successfully.

insuring large quantities of goods out of season, unt these goods can be delivered to retailers in small lo according to seasonal needs, require services that mo: manufacturers and retailers are unable to provic successfully. A wholesaler may handle the goods c many manufacturers, one variety being important in h storage at one season and another entirely different variet at another season. Thus he keeps his storage facilities an his labor busy and presumably profitably employed, whic would be impossible if he handled but one seasonal lin

TABLE 2.—WHOLESALE TRADE BY TYPES OF OPERATIONS

Type of operation	Number of establishments	Net sales, 1939, millions of dollars	Per cent of total sales		
			1929	1935	1939
United States Total	200,573	$55,266	100.0	100.0	100.0
Service and limited—function wholesalers	101,627	23,642	45.3	42.9	42.8
Manufacturers' sales branches (with stocks)	12,977	8,847		15.8	16.0
			22.8		
Manufacturers' sales offices (without stocks)	5,119	4,679		8.4	8.5
Petroleum bulk stations and terminals[1]	30,825	3,808	3.6	6.3	6.9
Agents and brokers	20,903	11,201	21.2	20.8	20.3
Assemblers (mainly farm products)	29,122	3,089	7.1	5.8	5.5

[1] Sales include taxes.

SOURCE: Bureau of the Census, *Census of Business*, 1939, Wholesale Trade, Vol. II, p. 12.

TABLE 3.—WHOLESALE TRADE—ESTABLISHMENTS AND SALES

Division	No. of wholesale establishments			Net sales, millions of dollars		
	1929	1935	1939	1929	1935	1939
United States Total	168,820	176,756	200,573	$66,983	$42,803	$55,266
New England	9,756	9,580	10,107	4,006	2,528	3,171
Middle Atlantic	38,045	40,392	45,370	22,703	14,297	18,931
East North Central	32,058	35,638	40,634	13,446	8,709	11,228
West North Central	28,629	29,526	33,136	8,455	4,787	5,808
South Atlantic	15,592	15,367	17,426	4,486	3,406	4,567
East South Central	7,719	7,594	8,198	2,497	1,610	1,965
West South Central	17,526	15,056	18,470	4,739	2,697	3,457
Mountain	5,777	6,413	7,300	1,174	847	1,089
Pacific	13,718	17,190	19,932	5,479	3,922	5,049

SOURCE: Bureau of the Census, *Census of Business*, 1939, Wholesale Trade, Vol. II, p. 11.

f goods. Table 4 gives a breakdown of the wholesale trade y classes of customers and types of operation. One of the reat weaknesses in many cooperative storage plants and armers' elevators is that they are empty a large part of he year while maintenance costs, taxes, and interest work ll the year and every day in the week.

TABLE 4.—WHOLESALE TRADE—SALES BY CLASSES OF CUSTOMERS AND TYPES OF OPERATIONS
(In per cent)

Type of operation	Retailers		Household consumers[1]		Industrial users[2]		Other wholesalers[3]		Buyers in foreign countries	
	1935	1939	1935	1939	1935	1939	1935	1939	1935	1939
ervice and limited-function wholesalers	59.2	58.9	1.9	1.9	24.9	23.6	10.2	11.6	3.8	4.0
lanufacturers' sales branches (with stocks)	52.6	39.4	0.4	0.5	27.7	34.6	18.6	24.5	0.7	1.0
lanufacturers' sales offices (without stocks)	17.8	13.0	0.2	0.2	59.3	64.9	21.1	19.9	1.6	2.0
gents and brokers	21.0	16.8	0.1	0.7	34.9	35.8	39.4	40.6	4.6	6.1
ssemblers (mainly farm products)	12.7	13.5	4.1	6.2	29.5	21.3	50.0	55.8	3.7	3.2

1 Sales of wholesale establishments at retail.
2 Sales to buyers who purchase for business use rather than for resale purposes.
3 Including sales to export intermediaries.
SOURCE: Bureau of the Census, *Census of Business*, 1939, Wholesale Trade, Vol. II, p. 26.

Often the wholesaler enters into the manufacturing rocess in a small way and reclassifies goods, packs them, nd provides for delivery according to the size of the wants f his retail customers in different communities.

In retail trade chain and independent stores are compared.

There are several approaches which might be followed in an analysis of retail trade as it relates to the eneral topic of types of middlemen and channels of disribution. Kind of business, size of business, nature of wnership organization, service rendered, and type of peration are among the approaches used in the analysis f retail-trade statistics. However, in view of the interest n chain-store distribution, our presentation compares hain-store and independent-store retail distribution. Table 5 shows the number of stores and sales in 1939 by ypes of chains and Table 6 shows the number of stores and ales in 1939 by the various types of independents.

TABLE 5.—CHAIN UNITS SUMMARIZED BY TYPES (1939)

Types	Number of stores	Sales, thousands of dollars	Per cent of total sales
Total	123,219	$9,570,114	22.8
Local chains	25,455	1,581,386	3.8
Sectional and national chains	82,049	6,771,009	16.1
Manufacturer-controlled chains	10,123	583,062	1.4
Leased-department chains	5,568	170,368	0.4
Mail-order houses (general merchandise)	24	464,289	1.1

TABLE 6.—INDEPENDENTS SUMMARIZED BY TYPES (1939)

Types	Number of stores	Sales, thousands of dollars	Per cent of total sales
Total	1,647,136	$32,471,676	77.2
Single-store independents	1,521,145	27,417,200	65.2
Multi-unit independents	77,845	3,752,509	8.9
Market and roadside stands	18,014	103,162	0.3
Leased departments—independent	7,661	136,988	0.3
Utility-operated stores	4,836	151,539	0.4
Direct selling (house-to-house)	5,199	153,397	0.4
Commissaries or company stores	2,007	148,248	0.3
Farmer and consumer cooperative stores	3,698	224,375	0.5
State liquor stores	2,618	249,430	0.6
Mail-order houses (except general merchandise)	410	73,124	0.2
Other types of operation	3,703	61,704	0.1

SOURCE: Bureau of the Census, *Census of Business*, Vol. 1, Retail Trade, 1939, Part 1, p. 48.

TABLE 7.—RETAIL TRADE—STORES AND SALES

Major business groups	Number of stores			Sales, millions of dollars		
	1929	1935	1939	1929	1935	1939
Total, all stores[1]	1,476,365	1,587,718	1,770,355	$48,329.7	$32,791.2	$42,041.[illegible]
Food groups	481,891	532,010	560,549	10,837.4	8,362.4	10,165.[illegible]
General stores (with food)	104,089	66,701	39,688	2,570.7	1,110.4	810.[illegible]
General merchandise groups	54,636	44,651	50,267	6,444.1	4,619.8	5,665.[illegible]
Apparel groups	114,296	95,968	106,959	4,240.9	2,656.2	3,258.[illegible]
Furniture-household-radio groups	58,941	45,215	52,827	2,754.7	1,289.9	1,733.[illegible]
Automotive groups[1]	69,379	50,459	60,132	7,043.4	4,236.6	5,548.[illegible]
Filling stations	121,513	197,568	241,858	1,787.4	1,967.7	2,822.[illegible]
Lumber-building-hardware groups	90,386	73,186	79,313	3,845.6	1,864.3	2,734.[illegible]
Eating and drinking places	134,293	251,473	305,386	2,124.9	2,390.9	3,520.[illegible]
Drugstores	58,258	56,697	57,903	1,690.4	1,232.6	1,562.[illegible]
Other stores	188,683	173,790	215,473	4,990.0	3,060.5	4,220.[illegible]

[1] Exclusive of service garages and other automotive service businesses whose receipts from service sales exceed their sales of merchandise.
SOURCE: Bureau of the Census, *Census of Business*, Vol. I, Retail Trade, 1939, Part I, p. 57.

ome Types of Distribution

Some examples:

Automobiles. Automobiles are sold through factory ranches, which in turn sell through agents and/or dealers. ome move through wholesale distributors who in turn ell to retailers. All automobile makers distribute some utomobiles direct in some markets, but the method used y each manufacturer in each instance represents his comliance with the requirements of the consumers, who want he greatest possible value at the lowest price. In the same nanner, tire and accessory manufacturers distribute their roducts to the consumers.

Automobiles are sold from factory branches to agents or wholesalers or dealers.

Hardware. Builders' hardware, paints, varnishes, oofing paper, stoves, and other articles of similar classifiation are distributed through hardware jobbers. These obbers in turn sell from catalogues to retail hardware dealrs who sell to local consumers. Furnaces, radiators, bath ubs, and other plumbing supplies move through plumbng jobbers. The jobber may make the installation, selling is services in connection with the equipment.

Hardware is marketed largely through jobbers.

Specialties. There are some products that are sold nainly in the city—furs, diamonds, Oriental rugs, etc. Some types of them, however, are distributed in one way r another into every small town in America. The shopirl's fur may be muskrat by some high-grade name instead f mink. The diamond may be small, but adequate for its urpose. The Oriental rug may have been made in Newark, ut no visitor in the home can question its fine appearance.

Some specialties are sold mainly in cities, but distribution tends to spread more widely.

Industrial Goods. The heavy-goods industries disribute manufacturing equipment and replacements of all inds to industrial users. The lighter items such as files, acksaws, hacksaw blades, chain hoists, sandpaper, grindrs and grinding wheels, and other such goods move through mill-supply jobbers. These jobbers catalogue and sell hrough salesmen direct to manufacturers and others using he equipment. The methods of jobbers vary with localities. A hardware or mill-supply jobber in New England may ell to the hardware dealers only in his particular locality, while one in Minneapolis, St. Paul, or Duluth may sell to housands of hardware dealers from Minnesota to the Pacific Ocean.

The heavier items of manufacturing equipment may be sold directly; lighter items, through mill-supply jobbers.

Steel. Steel is marketed across and through our to economy. Its manufacturers include the general and t specialized. A few deal in ingots, especially for heavy for ing purposes. The ingots are the raw material for oth fabricators. Some specialize in steel sheets, some of whi are used in the automobile industry and others in the buil ing of ships. Some steel companies specialize in alloys; sor in tool steels. Three of the steel corporations cover pra tically all fields of both staples and specialties.

Steel is sold direct to fabricators who use it; steel rails direct to railroads. But jobbers handle many steel items.

Steel is sold direct to fabricators who use it. St rails may move in endless carloads direct to railroads. Ma steel companies maintain their own warehouses at impo tant distribution points for the benefit of small custome Many jobbers handle steel in small quantities in compe tion with the distributing organizations of the steel co panies. Nails which are sold direct by the steel corpor tions to mill-supply and hardware jobbers may finally resold by the retailer in pound lots to a householder maki repairs or in quantities to a contractor building houses.

Farm products require extensive marketing machinery.

Agricultural Products. Possibly the most exacti and comprehensive distributing mechanism of all required to distribute the products of agriculture. To l seed, the farmer adds the benefits of soil and sun and l labor. The price he receives is determined only in part l the crop in his locality. The product is sold largely to lo or distant mills, or in grain or produce markets of vario cities.

Grains, for example, move through elevators, mills, warehouses, etc., before reaching the consumer's table, with the aid of various forms of transportation, and small profits in each case lubricate the operations.

Grains move through elevators that may be own by farmers or other individuals, by cooperatives, or l commercial enterprises. From elevators they may mo in trains, by Great Lakes and ocean steamships, by truc and by other methods of transportation. The vario facilities needed to transfer grains and other agricultu products include elevators, warehouses, fruit and vegeta exchanges, refrigerator cars, stockyards, canneries, dee freeze units, and trucks.

On occasion, specialty manufacturers grow b enough to omit the wholesaler and sell direct. Usually t chain stores buy direct from manufacturers, but n from farmers. Grains in whatsoever form move from t farmer's field to the consumer's table, with the force

demand and the pressure of sales power, through channels that are lubricated by microscopic profits on grain staples and very narrow profits on specialties made out of grains.

Cost of Distribution

Cost of distribution is a major item in the prices paid by consumers.

The cost of marketing or distributing any product from the time it leaves the manufacturer or producer until it reaches the consumer is a major item in ultimate price which the consumer pays for the product. Distribution costs involve several factors. In the case of a food product, the costs of production, discounts to retailers, chains, or wholesalers, transportation costs, advertising, and travel expenses of salesmen must be paid by the manufacturer and be included in the ultimate price at which the goods are sold to the consumer. Selling and delivery expenses, advertising expenses, and administrative and general office expenses for a large number of industries are given in Table 9. When a piece of machinery is sold to a manufacturer, the cost to the buyer must recognize such things as thinness of the market, requirements of the buyer, frequency and size of the orders, and advertising.

Discounts vary with the goods sold. A shoe dealer buying shoes direct from the manufacturer seeks a \$6 cost for a shoe to sell at \$10. He may seldom realize this object, but in trying to attain his ends he must include such cost items as heat, light, rent, store help, advertising, and local contribution, which may wash out his markup of \$4 unless large sales volumes are realized. Furthermore, when the landlord observes that sales volume is up, it may be an occasion for demanding higher rents, or the employees may find in larger sales a reason for higher wages.

Total retail sales costs are higher than either manufacturing or wholesaling costs.

Retail sales costs represent a larger proportion of total sales income than wholesaling or manufacturing costs. The United States *Statistical Abstract* reports a little less than ten times as many retailers as either manufacturers or wholesalers in the United States. Retailing is costly because of the small lots handled and because each item is an individual sale.

The assembly, processing, or manufacturing and the redistribution of goods to the 2 million retail outlets which

serve the many millions of consumers with both durabl and perishable goods, at the time such goods are wante and in the exact quantity and quality wanted, require broad, complex market which is not easily described.

Reasons for High Costs of Distribution

The reasons for high costs of distribution are mainly the requirements of consumers.

The American marketing system is exceedingly com plex. The growth of our factory system, the specializatio of industry, the ever-increasing variety of products, con veniences of supply, frequency of delivery, variety c choices, and prompt and efficient services are the princip reasons for high distribution costs. The problem is not on of satisfying a static need. The system must meet th dynamic changes and the increases in consumers' require ments that are endless in number and variety. Many manu facturers or middlemen offer services to the market tha are necessary, desirable, or unique. Business inefficiencie develop. Huge risks are assumed. Obsolescence develop for which the marketer must pay.

Marketing is a risky field.

Poor management, bad pricing, overreaching, extr services, small accounts—all tend to make a marketin business moribund or bankrupt. The consumer intensifie these conditions by demands for more and more service by abuses of credit and of the return privilege, by demand for variety beyond the power of a local market to suppl —all of which develop competitive costs that often was out those who compete. The losses are paid by those wh take the risks. The consumer always remains on the side lines to pick and choose.

Mass production and large-scale buying are constantly lowering costs, but other factors tend in the opposite direction.

Mass production and large-scale buying constantl lower costs of staple goods, while fancy packaging increase the costs of specialties. In the American market, howeve the specialties and luxuries of one decade may become th necessities of the next. Oranges used to be available only t the rich at Christmastime, except in the regions where the were grown; now they are considered a staple frui throughout the country. The same is true of automobil or radios, telephones or electricity. The fur coat on th opera star has its counterpart on the shopgirl throughou the nation. The fine dresses that appear in Fifth Avenu windows in one month appear in copies in department

tore windows across the country at reduced prices in ucceeding months; and, before the season ends, a fine mitation of the Fifth Avenue dress at $175 appears in the ed-front department stores of small towns at $14.95.

What part of the consumer's dollar goes to pay the arious marketing costs? The answer to this question is ot fully ascertainable, but some light may be thrown pon the matter by reference to certain studies which ave been made in the past. The Twentieth Century Fund[1] eached the conclusion in 1939 that about 59 per cent of he consumer's dollar went to meet marketing costs.

It has been estimated that about 59 per cent of the consumer's dollar in 1939 went to meet marketing costs.

A summary of the studies of the Bureau of Foreign nd Domestic Commerce was made in 1940 by Dr. Nathaniel H. Engle.[2] Some of the high lights of that summary are as follows:

1. Total marketing costs may have been as high as 9.0 billion dollars in 1929 but probably nearer 32.0 billion. By 1935 they were approximately 22.0 billion dollars, reflecting the reduced level of business.

2. Approximately one third of the gainful workers vere engaged in marketing activities in 1940 as compared vith one seventh in 1870. Marketing activities accounted or one third of the national income in 1929.

3. Some idea of marketing costs in the aggregate nay be indicated as follows:

Studies show that marketing costs reached about 32–39 billion dollars in 1929, that the proportion of gainful workers engaged in marketing increased from one seventh in 1870 to one third in 1940.

> Manufacturers' marketing costs in 1935 ranged from 5.8 to 6.2 billion dollars.
>
> Wholesale distribution costs, exclusive of manufacturers' wholesale branches, were approximately 4.0 billion dollars in 1935.
>
> Retail costs were between 8.5 and 9.0 billion dollars in 1935.
>
> Advertising cost consumers about 2.0 billion dollars in 1937.
>
> Transportation costs in 1929 were between 7.0 and 9.0 billion dollars.

[1] *Does Distribution Cost Too Much?,* Twentieth Century Fund, N.Y. 1939, . 117.

[2] N. H. Engle, "Costs and Profits in Marketing," *Annals of Amer. Acad. ol. and Soc. Science,* May 1940, p. 132.

Net marketing profits approached 2.0 billi dollars in 1929.

Marketing profits averaged not more than cents out of each consumer dollar in 192

Dr. Engle made the following comment:

These studies indicate that marketing costs, though not low, are not unreasonable.

If marketing costs are too high, as is often contended, the fa fail to show it. It would require much more data than are now ava able to establish or disprove the truth of this oft-repeated critici of marketing. The facts show that marketing costs are high but a that the task of marketing is a tremendous one. While these facts not prove marketing costs to be low, they leave the impression tl they are not unreasonable. This conclusion does not blink the fa that there may be considerable waste in distribution, which should reduced. There is also much waste in other types of production, whi should likewise be reduced. A constant struggle to reduce costs along the economic front, in marketing and production alike, shou be our goal, since costs are obstacles to consumption.

The value of the services of middlemen is shown by the continued use of them.

Marketing is largely a human function. Machin and seeds can produce goods, but men market them. T high costs of wages and salaries in marketing bring consta criticisms from farmers and factory workers who see goo produced cheaply by sun, soil, toil, and mechanical pro esses. The middlemen perform necessary functions in t marketing system. Time and again, however, their co have been weighed against the contribution they make the value of the products they distribute. The fact th the manufacturers and growers continue to distribu through these middlemen after examination of the co they add is the best evidence of the value of the middleme

Cutting Distribution Wastes

There is a constant struggle to reduce or avoid distribution costs.

Marketing is a trade rather than a science. It develo leaks and losses at many points. Because marketing wast and losses are so frequent, often so personal, and alwa at the cost of the economy, they are resisted and resent by the public. The demands of the consumer for consta increases of value are met by constant improvement in t distributing methods of all industries. Therefore there a constant struggle in the national economy to reduce avoid the costs of distribution.

The cabinetmaker can waste countless shavings

btain a proper fit. Nylon may require many millions in ıboratory costs, but this is forgotten when the product ; marketed. An automobile manufacturer may spend 10 nillion dollars on a new automobile and lose it if the car oesn't sell in the required quantities, but he is forgiven f the car rides well and holds up in service. A crop unhar-ested in orchard or field for lack of a market is less easy o forgive, even if it may also be less costly to leave it han to harvest it.

Chain stores, supermarkets, and cafeterias are examples.

When chain stores offered values that the housewife hought sufficiently better than those of the corner gro-ery, chain-store sales grew in volume, and wholesale gro-ers diminished in numbers and importance. When com-etition between chain-store organizations developed, the supermarket" was a natural outgrowth. Chains reduced he number of their stores by, in effect, consolidating them ı central locations as supermarkets, usually with parking ɔts adjoining and convenient to the consumers.

The supermarket costs are among the lowest in the ıarketing system. They occur, however, in food lines 'here the greatest number of people are interested and 'here the benefits can be most appreciated. Except for the ıethods of mass purchasing and mass sales, these low costs ɔuld not be attained. Even this high percentage of effi-iency in a supermarket cannot be permanently satisfac-ɔry to the marketing public which requires constantly ɔwer costs, improved quality, increased quantities, and nproved services.

The further introduction of mechanical processes ıd the abandonment of primitive personal methods is eeded for continuous reduction of marketing costs. Big isplays in five-and-ten-cent stores and bargain basements ıd price tags on all items in supermarkets and cafeterias :e important steps in the mechanization of marketing rocesses.

Businessmen work constantly on the problem of :ducing distribution costs. Trade associations exist to ;sist cost reductions, credit bureaus are general, market ırveys are frequent, cost accounting is applied to dis-'ibution.

The problem of reducing costs is set out by the

The Twentieth Century Fund's study recommended repeal of legislation designed to preserve or destroy special groups in the distribution structure, removal of interstate discriminations, more effective restrictions on monopoly, and authority for distributors to agree on elimination of some costly competitive excesses.

Twentieth Century Fund in its 1939 study, *Does Di tribution Cost Too Much?* With respect to competiti restrictions and regulations, the Twentieth Century Fu study recommends

(1) the immediate repeal of all laws which are design merely to preserve, or to destroy, some special gro in the distribution structure, without regard for t general public interest;

(2) the prompt repeal of all state legislation design to discriminate against the products of other sta and to restrict the free movement of goods betwe the states;

(3) the strengthening and more effective administrati of existing laws designed to prevent and destr private monopoly, to eliminate price fixing, and prevent other monopolistic practices, except unc government sanction and supervision;

(4) permission by appropriate government agenci under specific statutory authority, for distribut to agree on the elimination of certain costly exces in competition which increase the cost to the co sumer.

Marketing Legislation[1]

Marketing legislation has flourished in recent years.

The growth of marketing legislation in this count has accompanied the tendency toward increased gove ment regulation of commercial activities. The abunda of this legislation by federal, state, and local governme is bewildering. Anyone who engages in marketing at a point in the chain of activities must spend a large p of his time with the help of fully informed legal serv to operate within the law.

From organization of a business to exit from it a multitude of rules must be observed.

There is the legislation governing the organizat of a new business or a business expansion; there are lice required for one thing or another, and regulatory a administrative rules that multiply almost daily. Even laws governing the exit from business are no longer sim

[1] In the preparation of this section considerable use was made of "Mark Legislation," by Ewald T. Grether, *Annals of Amer. Acad. Pol. and Soc. Sci* May 1940, pp. 165–175.

evisions of the bankruptcy laws and the Chandler Act of 938 completely modified the usual methods of reorganiation and exit from business.

The Sherman Act, the Clayton Act, and the Federal Trade Commission Acts have been the main bases of federal regulation.

The legislation to preserve competition and equal ghts had its first important impetus with the Sherman ct of 1890 with its sweeping prohibitions of monopolies ıd combinations in restraint of trade. The Clayton Act f 1914 labeled a group of practices deemed in violation f the Sherman Act. The Federal Trade Commission Act f the same year set up an administrative agency with road powers to make rules and regulations and investiate practices governing fair competition. Most of the ates have a variety of "fair-trade-practice" laws. The layton Act and many of the state laws have provisions overning price cutting.

But since 1929 the Robinson-Patman Act, the NIRA, and the agricultural marketing acts have complicated the marketing system.

The Robinson-Patman Act of 1936 amended and rengthened the price-discriminating prohibitions of the layton Act. This act is complicated, and its full implicaons are not yet understood. The Robinson-Patman Act eals but little with monopoly price practices and seeks establish the plane of price competition. The National dustrial Recovery Act recognized and approved agreeents and stabilization practices which were previously ld in violation of free competitive practices. The Agriltural Marketing Act of 1929 set up a Federal Farm oard which, among other services, was to aid farmers in ıancing and withholding crop surpluses from the mart, and otherwise to restrain the free play of market ices. The same trend of legislation is shown in the fairade and fair-practice acts of the states. The Miller-Tydgs Amendment of 1937 to the Sherman and Federal rade Commission Acts made law out of a long line of oken price regulations. Under this amendment, manucturers are actually assisted in making contractual prices nding even upon noncontractors. Price competition der these acts is reduced. Discriminatory taxes have been vied by many states on chain stores, designed to handip or eliminate them.

In 1938 Congress enacted a new Food, Drug, and osmetic Act. This act more or less prohibits practices urious both to the trade and to the consumer. The penal-

ties have been increased. Among the new powers are co trol over false advertising of foods, drugs, cosmetics, a devices. This task is assigned to the Federal Trade Cor mission.

Wars and depressions have stimulated pressure groups to seek government regulation, and special legislation so stimulated creates confusion.

This maze of legislation and administrative ru governing marketing practices dates for its origin back the Civil War period. The price regulation practices World War I added to the demand for more regulatic and restrictions. The depression period of the early twe ties, following the collapse of prices after World War and the long depression period of the thirties, stimulat special pressure groups to demand support and regulati to protect their interests. World War II brought m regulations and control. Just how much of the regulat policies and controls over business will be removed o time can tell.

The whole field of legislation affecting production, marketing, and trade practices needs thorough investigation and reform.

Unfortunately, there seems to be no broad defin plan of legislation on marketing based upon carefu formulated economic policies. Most of the legislation originated from, and has been adopted to serve, spec pressure groups. No doubt the ill effects of this class leg lation and special group legislation will in time bring ab a thorough investigation of the whole field of legislat affecting production, marketing, and trade practices, a lead to broad over-all legislation for the best interest the American people without favor to any group.

State and municipal regulations also have become more confusing and burdensome—especially as restricting out-of-state competition.

State and municipal regulations of marketing growing more and more cumbersome in their restra of trade. They include extraordinary license requireme high capital requirements, the posting of bonds, or payments of fees. Or they may take on the form of co modity and service regulations. They even regulate traveling salesmen, the peddlers, and the agents of o of-state business. Although the Constitution places regulation of interstate and foreign commerce under C gress, this has been no barrier to state regulations licensing which restrict, restrain, and even prohibit o of-state competition. But the evasions which have spr up in almost every state have created complicated probl which are damaging to the consumer and against the p lic interest.

.egulation and Free Markets

Government control of prices and markets would spell government control of our entire economy.

Government regulation, government planning, and :her forms of statism are primarily rebellions against the uidance of the economy by market price, against the istribution of national income by the free play of supply nd demand in competitive markets. Those who advocate egimentation would have the government employ oercion and arbitrary action, delegating legislative power › diverse boards and authorities and giving legal sanction › their decrees, in order to achieve what they regard as nore important for us than what we ourselves might hoose. The control of prices and markets spells the con- :ol of all economic activity. Government planning thus ıvolves the direction of our whole life.

Our current experience has shown the results of arbitrary controls subject to political pressure.

Our experience with rationing and price fixing indi- ates what happens. One administrator regards the receipt f profit by an enterprise as iniquitous and establishes rices and markups that pare profits to the vanishing oint, with the result that production is stifled and the ıarket starved. Another administrator sets arbitrary dif- :rentials between three grades of dress, with the result ıat only one grade is produced. Farmers and wage earners -two classes that offer goods having an inelastic supply ı a market with a greatly expanded demand—are able ırough political pressure to revise the formula of "social stice." Politically inspired sympathy for "small business" ads to discrimination in taxes, in access to credit, and in rices allowed. The market becomes topsy-turvy when bitrary decisions as to price and quantity are made by ıreaucrats whose pocketbooks are not affected by their :cisions.

Table 8.—Distribution of Manufacturers' Sales (1939)
(Distributed sales, millions of dollars)

Industry	Number of establishments reporting	Total	To own wholesale branches or offices	To own retail stores	To wholesalers and jobbers	To export intermediaries	To retailers for resale	Export direct to buyers in other countries	To industrial etc. users[3]	To consumers at retail[4]
Total, all groups	145,544	50,293.9	11,255.0	1,046.8	12,652.4	457.4	9,841.0	1,147.0	13,062.1	832.2
Food and kindred products	50,409	11,335.4	2,436.6	516.1	3,304.4	53.0	3,677.3	98.9	836.4	412.7
Tobacco manufactures	759	1,320.2	396.9	0.4	818.4	0.4	91.5	5.1	6.5	0.9
Textile mill products and other fiber manufactures	5,159	3,408.3	388.5	6.2	1,357.7[1]	12.2	548.6	18.5	1,057.4	19.0
Apparel and other finished products made from fabrics and similar materials	14,041	3,020.6	198.7	112.7	421.4	14.1	1,994.4	4.9	223.8	51.0
Lumber and timber basic products	10,262	1,067.7	90.7	42.2	398.6	18.8	131.1	12.9	312.2	61.3
Furniture and finished lumber products	8,372	1,232.0	93.9	22.7	213.4	5.6	513.4	7.5	344.5	31.0
Paper and allied products	3,254	1,742.4	257.1	6.0	519.1	9.9	97.9	16.0	831.5	4.9
Printing, publishing, and allied industries[2]	......	....	......	....	......	....	.....	....	.....	.....
Chemicals and allied products	8,954	3,684.0	1,192.0	40.1	731.8	21.9	323.8	62.4	1,211.5	100.4
Products of petroleum and coal	989	2,820.4	1,684.9	40.5	598.1	96.4	51.4	139.9	190.6	18.5
Rubber products	595	964.3	278.5	95.7	139.8	6.5	127.8	33.1	281.8	1.0
Leather and leather products	3,287	1,285.3	231.8	31.4	239.7	2.3	492.9	12.2	272.1	2.9
Stone, clay, and glass products	6,910	1,434.2	398.6	11.8	286.7	6.7	164.3	18.7	511.2	36.3
Iron, steel, and their products, except machinery	8,791	5,548.3	1,203.0	12.6	697.8	41.6	249.4	115.5	3,210.1	18.4
Nonferrous metals and their products	5,083	2,072.7	630.6	6.3	290.8	11.7	125.9	19.3	969.3	18.8
Electrical machinery	1,995	1,629.2	525.1	19.2	519.1	11.9	105.5	44.4	398.4	5.5
Machinery (except electrical)	7,918	3,162.1	657.4	49.0	636.5	49.0	172.6	267.2	1,309.6	20.7
Automobile and automobile equipment	1,109	3,086.2	399.3	11.5	1,117.7	69.7	753.4	119.4	607.7	7.4
Transportation equipment, except automobiles	194	314.1	2.4	....	23.2	18.7	18.6	111.9	138.8	0.5

TABLE 8.—DISTRIBUTION OF MANUFACTURERS' SALES (1939)—*Continued*

(Distributed sales, per cent)

Total, all groups	......	100.0	22.4	2.1	25.1	0.9	19.6	2.3	26.0	1.6
Food and kindred products	......	100.0	21.5	4.6	29.1	0.5	32.4	0.9	7.4	3.6
Tobacco manufactures	......	100.0	30.1	*	62.0	*	6.9	0.4	0.5	0.1
Textile mill products and other fiber manufactures	......	100.0	11.4	0.2	39.8[1]	0.4	16.1	0.5	31.0	0.6
Apparel and other finished products made from fabrics and similar materials	......	100.0	6.6	3.7	13.9	0.5	66.0	0.2	7.4	1.7
Lumber and timber basic products	......	100.0	8.5	4.0	37.3	1.8	12.3	1.2	29.2	5.7
Furniture and finished lumber products	......	100.0	7.6	1.8	17.3	0.5	41.7	0.6	28.0	2.5
Paper and allied products	......	100.0	14.8	0.3	29.8	0.6	5.6	1.9	47.7	0.3
Printing, publishing, and allied industries[2]	......	.....	....	...	....	...	....	...	....	...
Chemcals and allied products	......	.....	32.3	1.1	19.9	0.6	8.8	1.7	32.9	2.7
Products of petroleum and coal	......	100.0	59.7	1.4	21.2	3.4	1.8	5.0	6.8	0.7
Rubber products	......	100.0	28.9	9.9	14.5	0.7	13.3	3.4	29.2	0.1
Leather and leather products	......	100.0	18.0	2.4	18.6	0.2	38.4	1.0	21.2	1.2
Stone, clay, and glass products	......	100.0	27.8	0.8	20.0	0.5	11.5	1.3	35.6	2.5
Iron and steel and their products except machinery	......	100.0	21.7	0.2	12.6	0.7	4.5	2.1	57.9	0.3
Nonferrous metals and their products	......	100.0	30.4	0.3	14.0	0.6	6.1	0.9	46.8	0.9
Electric machinery	......	100.0	32.2	1.2	31.9	0.7	6.5	2.7	24.5	0.3
Machinery (except electrical)	......	100.0	20.8	1.6	20.1	1.5	5.5	8.4	41.4	0.7
Automobile and automobile equipment	......	100.0	12.9	0.4	36.2	2.3	24.4	3.9	19.7	0.2
Transportation equipment, except automobiles	......	100.0	0.8	...	7.4	5.9	5.9	35.6	44.2	0.2
Miscellaneous industries	......	100.0	16.2	1.9	29.0	0.6	17.3	3.3	29.9	1.8

[1] Includes $412,709,000 (12.1 per cent) "sales to converters."

[2] Distribution of sales statistics not obtained on printing, publishing, and allied industries.

[3] Also includes commercial, professional, and institutional users (manufacturers, railroads, utilities, governmental bodies, hotels, contractors, etc.).

[4] Includes farmers, household consumers, and employers at retail.

* Less than one tenth of 1 per cent.

SOURCE: Bureau of the Census, *Census of Business*, Vol. V, Distribution of Manufacturers' Sales, 1939, pp. 6-7.

Table 9.—Expense Operating Ratios or Cents per Dollar of Sales for 86 Industries, Including 2,688 Corporations (1940)

Industry	Selling and delivery expense	Advertising expense	Administrativ and general office expense
Agricultural machinery and tractors	10.79	1.33	1.61
Aircraft	1.47	0.26	1.95
Asbestos and abrasives	12.20	1.59	4.53
Automobile parts and accessories	3.24	0.90	2.63
Beet sugar	12.81	0.21	1.95
Biscuits and crackers	23.23	2.60	4.73
Blowers: exhaust and ventilating fans	9.91	2.62	10.48
Bolts, nuts, washers, and rivets	4.23	0.21	5.86
Bread and bakery products	24.24	2.63	3.36
By-product coke	2.8	0.4	2.4
Cane sugar	4.62	0.17	1.75
Cement	8.83	0.87	4.57
Cereal preparations	5.77	13.08	3.26
Chemicals (industrial)	6.10	0.89	3.87
Cigarettes, cigars, and other tobacco products:			
Cigarettes	4.6	11.3	1.4
Cigars	7.4	5.4	2.9
Other tobacco products	10.6	8.2	6.1
Clay products (other than pottery)	7.92	0.33	5.25
Commercial laundry, dry cleaning, and pressing machines	17.51	1.84	4.67
Copper (primary) smelting and refining	1.36	0.16	1.30
Corn products	6.26	2.00	3.94
Cotton textiles	3.41	0.46	1.81
Cranes: dredging, excavating, and road-building machinery	10.25	1.11	3.90
Distilled liquors	10.52	9.79	4.95
Drugs and medicines	13.41	13.94	5.50
Electrical machinery and apparatus	9.13	1.58	3.06
Elevators, escalators, and conveyers	7.75	1.04	11.60
Fertilizer	6.23	0.80	3.68
Firearms and ammunition	4.82	1.68	2.87
Flour milling	6.22	3.03	3.30
Food products machinery	14.01	1.50	5.46
Footwear (except rubber):			
Selling to nonaffiliated distributors	8.4	2.0	2.6
Selling through own retail stores	14.2	1.6	3.2
Forgings (iron and steel)	2.53	0.26	3.48
Fruit and vegetable canning	6.87	4.49	3.36
Furniture	8.85	1.59	4.03
Glass and glassware	6.36	1.25	3.06
Gray-iron and malleable-iron castings	3.58	0.30	4.88
Gypsum products	9.62	1.57	3.41
Hardware	8.38	1.06	5.66
Heating and cooking apparatus (except electric)	12.63	2.20	3.82
Internal-combustion engines	7.16	1.33	4.09
Lead and zinc (primary) smelting and refining	3.23	0.39	2.70
Lead and zinc (secondary) smelting and refining	2.75	0.28	3.17
Linoleum and other hard-surface floor coverings	8.78	3.67	3.67
Lumber and timber products	5.18	0.21	3.95
Machine-tool accessories and machinists' precision tools	7.28	0.52	3.36
Machine tools	5.72	0.64	3.34

Table 9.—Expense Operating Ratios or Cents per Dollar of Sales for 86 Industries, Including 2,688 Corporations (1940)—*Continued*

Industry	Selling and delivery expense	Advertising expense	Administrative and general office expense
Malt beverage brewing	15.70	8.97	4.74
Matches	12.75	0.28	3.12
Mechanical measuring instruments	13.15	2.17	6.26
Mechanical stokers	8.16	1.07	4.31
Men's and boys' clothing:			
Selling through own retail stores	20.9	4.2	3.0
Selling to trade	6.4	3.6	5.4
Selling direct to wearer	18.5	1.7	5.1
Merchant pig iron	1.23	0.15	1.34
Mining machinery and equipment	8.53	0.81	4.76
Milk and milk products	12.44	1.10	3.34
Motor vehicles	3.29	1.94	1.15
Office and store machines	26.72	2.63	5.58
Oil-field machinery and tools	8.61	0.58	4.15
Paints, varnishes, and lacquers	13.33	2.46	4.98
Paper and pulp	4.49	0.79	3.75
Paving and roofing materials	10.97	2.08	3.88
Petroleum (crude) producing	0.32	0.08	5.55
Petroleum refining and marketing	12.51	1.25	2.28
Plastics	8.34	0.77	4.09
Plumbers' supplies	6.93	0.89	3.49
Power boilers and associated products	6.09	0.40	3.01
Pumps, pumping equipment, and air compressors	12.71	1.61	6.17
ailroad equipment	2.56	0.33	3.63
ayon and allied products	2.07	0.87	2.71
efrigeration and air-conditioning equipment	8.45	2.02	2.68
ubber products	12.20	2.07	1.91
crew-machine products and wood screws	4.30	0.36	5.91
ewing machines	35.55	0.98	3.34
hipbuilding	0.64	0.06	3.91
melting and refining equipment	9.07	1.72	6.09
oap, cottonseed products, and cooking fats	8.89	10.94	2.30
pecial industry machinery	9.60	0.96	6.43
team engines and turbines	4.10	0.66	3.23
teel castings	4.77	0.24	3.78
anned, curried and finished leather	3.53	0.24	2.10
extile dyeing and finishing (except woolen and worsted)	3.02	0.22	2.74
extile machinery	5.64	0.95	5.23
in cans and tinware	3.10	0.61	2.31
allboard and wall plaster (except gypsum), building insulation, and floor composition	13.00	3.45	5.41
ater-softening equipment	11.46	1.55	6.62
ire and cable (electrical)	3.85	0.33	2.54
ool carpets and rugs	7.21	2.30	4.04
oolens and worsteds	3.56	0.32	2.11

Source: Federal Trade Commission. Reproduced from National Industrial Conference Board Studies in Business Policy, No.3.

XIV

GOVERNMENT REGULATION

Introduction

THIS analysis is concerned with the nature and limits of the power which can legitimately be exercised by society over the individual. Behind these problems is he basic question of the theory of the State. Ideas and intitutions, ideologies and practical politics have a mutual ependence and reciprocal influence. There is an intimate elationship between man's faith and man's political rganization. Greatness in a nation is measured more by he quality of its people than by its wealth or armed ower. As Pericles said of the Athenians, America, instead f being an imitator in the matter of government, created model followed in many countries. In the words of rchibald MacLeish, the United States "was a symbol f human liberty—of the right of all men everywhere to ve their lives in dignity and freedom, and of the possiility that men could live so."

Ideas and institutions, ideologies and practical politics, have a mutual dependence and reciprocal influence.

he Challenge to Liberalism

The age of the Renaissance and the Reformation iarked an emancipation of thought and the development f a self-reliant spirit among people of Western Europe. he Christian ideal of the dignity of the individual was iven wider application. The invention of printing, the ecline of feudalism, the development of science, and he rise of capitalism stimulated a desire for civil liberty. he progress of representative democracy, partially estabished in England in 1689, was accelerated by the Amerian Revolution and the French Revolution. This progress vas continuous, with few real setbacks, until the end of Vorld War I. Then came a powerful challenge from two irections. Russia, rejecting the alternative of republican nstitutions, became the first nation to experiment with

Representative democracy, after a long period of growth, was challenged after World War I.

Marxian communism. In Italy and Germany, the uns soned structures of representative democracy fell like house of cards, and these two countries turned back dictatorship.

Liberalism and communism or fascism represent opposite concepts.

The ideal of liberalism is to provide each individu with the maximum possible freedom. The individu should submit only to an authority that is impersonal a objective. The State is the creation of individuals and exi to maintain their freedom. Law consists of both absolu principles and communal expression of individual w for the protection of individual interests.

Both Communists and Fascists, on the other har agree in the subordination of the individual to orga society.

The Communist Ideal

The communist ideal contemplates eventual withering of the state; but Communists, as a practical measure, require an all-powerful state controlled by the proletariat.

The communist ideal, as expressed by Engels, is th the proletariat, or wage-working class, seizes state pow and then transforms the means of production into st property. In doing this it puts an end to itself as t proletariat, puts an end to all class differences and cl antagonisms, and eventually puts an end also to that st as the State.

Lenin accepted this ideal but recognized that it w a Utopian dream. He wanted a socialist revolution w human nature as it is now, and contended that such revolution could not be effected without subordinati control, and managers. During the transition from ca italism to communism there must be suppression of t exploiting minority by the exploited majority. The ec nomic basis for the ultimate withering away of the st is that high stage of development of communism wh the antagonism between mental and physical labor d appears; that is to say, when one of the principal sour of modern social inequality disappears. The state will able to wither away completely when society has esta lished the rule, "From each according to his ability; each according to his needs."

In the first phase of communism all citizens employees of the state. The whole of society will beco

All citizens become employees of the state.

the final phase one office and one factory with equal ork and equal pay. From the moment when all members society, or at least the overwhelming majority, have rned how to govern the state themselves, from this oment the need for any government disappears. The ore complete the communism, the nearer the moment hen it begins to be unnecessary. When all have learned w to manage the social production, and independently e actually managing it by themselves, very soon the cessity of observing the simple fundamental rules of eryday social life in common will have become a habit. e door will then be wide open for the transition from e first phase of communist society to its highest phase, d along with it to the complete withering away of the te.

The record of Soviet Russia shows no drift toward anarchy, or equality regardless of service; and its trend seems away from the Marxian goal.

The foregoing were the theories of Lenin. Whater the achievements of the Union of Soviet Socialist epublics, there is nothing in its record to indicate any ndency toward the withering away of the state or to diminution of the natural inequalities of human beings. ussia, it seems, has largely abandoned any notion of uality of reward irrespective of accomplishment. though it is too early to speak with assurance, it seems ely that Russian institutions will evolve toward those liberal representative democracy rather than toward the arxian goal.

he Fascist-Nazi Concept of the State

The fundamental idea of nazism and fascism is an all-absorbing State of which individuals are but servants. They live only for the State.

Whatever the incidental differences of fascism and zism, both systems are dominated by the medieval idea, nturies old, of a sovereign having a subjective and divine ht to rule, and of a people standing in a relation of litical subordination. Positive law is the expression of sovereign's will. Instead of the concept of society as the m total of individuals living at a particular moment, ciety is a unity of both biological and social contents. e State has a life and scope which transcends the life d scope of the individuals making up its population. stead of the liberal formula of society for the individuals, ere is the doctrine of individuals for society. The State

subordinates, coordinates, and harmonizes individuals. Society is the end and individuals the means. The State is a wholly spiritual creation. It is a national state, says Gentile, because the nation is a creation of the mind.

The mystical personification of the State in the leading totalitarian countries was accompanied by an exaltation of the leader, whose will expressed its policies and purposes. Mussolini and Hitler had gained their absolute power largely by violence, but no criticism was permitted of their authority to speak for the state. Their regime was not only contemptuous of liberalism and democracy but was anti-intellectual. Following were characteristic expressions of the Nazi leaders:

> Liberty of intellect must be limited when opinion conflicts with the interests of the nation. The more freedom of opinion that is conceded to the individual, the more it can harm the interests of the entire people.
>
> The epoch of pure reason, of "objective" and "free" science, is ended.
>
> Absolute academic freedom in universities is absolute nonsense. All learning must fulfill the unqualified goal of education in cooperation with the political function.

In Italy, "order, hierarchy, and discipline" were offered as substitutes for liberty.

In Italy, Mussolini said:

> Men are tired of liberty. For the youth that is intrepid, restless, and hard, that faces the dawn of the new history, there are words of much greater power, and they are order, hierarchy, and discipline. Fascism has already passed over and if necessary will turn once more and quietly pass over the more or less decayed corpse of the Goddess of Liberty. [The Italian people responded by accepting the slogan, "The Duce is always right."]

In Germany the "Leader" was set up as omnipotent and infallible.

In Germany, Hitler became demigod, omniscient, omnipotent, infallible.

> Whoever heard Der Führer at Nuremberg felt the same thing [said Wilhelm Kube] there spoke in him the revelation of a Higher One. [Hans Frank said] Hitler was like God. [In the same vein Goering asserted:] Just as the Roman Catholic considers the Pope infallible in all matters concerning religion and morals, so do we National Socialists believe, with the same inner conviction, that for us the Leader is, in all political and other matters concerning the national and social interests of the people, simply infallible. It is something mystical, inexpressible, almost incomprehensible, which this unique man possesses. . . . We believe deeply and unswervingly that God has sent him to us to save Germany. . . . Trust in him is alone the basis

of our life. Whoever dares to touch our faith in him must be destroyed. Such a one has ceased to be a German . . . for Germany is Adolf Hitler.

In Japan militant fascism was built on a native feudalism.

In Japan, militant fascism, building on a foundation of native feudalism on which an incipient liberalism had made few inroads, added a powerful third to the two original totalitarian nations of fascist type. In many other countries fascist movements made gains at the expense of liberal institutions. Only when the fascist countries, following the logic of their nationalistic ambitions, compelled a coalition of the great representative democracies with Russia was the march of fascist ideology halted. It is yet to be seen whether the philosophy of fascism has been permanently discredited.

The Meaning of Civil Liberty

In America the problem is of transition from wartime concentration of authority to reestablishment of civil liberty.

Consideration of civil liberty is peculiarly significant when a representative republic, having been confronted with the dilemma of continuing to be constitutional while waging war effectively, is under the necessity of making a transition from war to peace. Lincoln once observed, "It has long been a grave question whether any government not too strong for the liberties of the people can be strong enough to maintain its own existence in great emergencies." The United States has again demonstrated that it can exist as a democratic republic through the emergency of a great war. It must also prove once more that it can resist the tendency of concentrated authority to perpetuate itself.

Dictatorship for any reason is likely to weaken democratic institutions. Leaders soon acquire the habit of exercising unlimited power without preliminary explanation and persuasion. Followers soon acquire the habit of obedience without questioning its necessity. For America the emergency of war followed the emergency of a long depression and then came the emergency of reconversion from war to peace. There is a real danger that a state of emergency be regarded as normal. As Eugene A. Gilmore recently said, "Emergencies make bad constitutional law." We may come to believe that the Constitution is itself

"expendable." We must take care that war powers esse tial for the preservation of the nation are not exercis broadly after the emergency has passed and in conditio for which they were never granted. Americans lent a lar part of their freedom for the duration; it is vital that th loan be returned.

In his classic essay on Liberty, John Stuart Mi points out that what was first meant by civil liberty w the setting of limits to the power of a ruler. This w sought to be accomplished in two ways: (1) by compelli a recognition of certain immunities of political rights citizens and (2) subsequently by establishing constit tional checks by which the consent of the community of its representatives was a condition of certain acts, f example the imposition of taxes, by the governing pow With the growth of democracy and the consequent iden fication of the government with the people, the limitati of the power of government over individuals lost none its significance. As Mill states:

John Stuart Mill, nearly 100 years ago, emphasized the need of safeguards of individual liberty, whether against government by a few or by the many.

> The "people" who exercise this power are not always the sa people over whom it is exercised, and "self-government" is not government of each by himself but of each by all the rest. The of the people, moreover, practically means the will of the m numerous or the most active part of the people; the majority, or th who succeed in making themselves accepted as the majority. people consequently may desire to oppress a part of their numb and precautions are as much needed against this as against any o abuse of power. . . . "The tyranny of the majority" is now gener included among the evils against which society requires to be on guard.

He held that society can properly exercise power over an adult individual, against his will, only to prevent harm to others.

Mill asserts that the only purpose for which socie acting through government or otherwise, can prope exercise power over an adult member of a civilized co munity against his will is to prevent harm to others. O himself, over his opinions and his acts, as long as his a are not hurtful to others, the individual is sovereign. T means absolute freedom of opinion on all subjects; libe of tastes and pursuits; freedom to unite for any purp not involving harm to others. The freedom to unite course involves the freedom to refuse to participate in a group activity not required to ensure the safety of the st

he "New Liberalism"

In respect of thought and discussion, Mill's conclu-
ons at least in theory are still generally accepted. There is ttle quarrel with his view "that mankind are not fallible; that their truths for the most part are half-uths; that unity of opinion, unless resulting from the illest and freest comparison of opposite opinions, is not esirable, and diversity not an evil, but a good."

It is in respect of the scope of action which should allowed different varieties of character, that friends of ate intervention part company with Mill. On one side, ey believe that many acts which only indirectly concern hers, where relationships are subject to the choice of oth parties, and where there is the possibility, not the rtainty, of harm, should be a matter of state control. On e other, they believe that society, through government, ould regulate individual conduct for the presumed good the individual himself. Such persons often repudiate the ea that civil liberty is possible at all to the mass of the eople in modern economic society. The word "liberal," hich once denoted and should still denote one who believes the maximum freedom of the individual from govern-ental interference, now has been assumed and travestied a label for those who wish to take away liberties and hose faith is the desirability of socialized direction of dividual activities. An interesting commentary on this ndency is that even 20 years ago the editors of the *icyclopedia of the Social Sciences* chose Harold Laski, well-known Socialist with communist leanings, as the thor of their essay on Liberty.

State interventionists would extend widely state control of human relations and individual conduct, in the name of "liberalism."

The basic difference between the true liberal and ery variety of statist, whether he calls himself Com-unist, Socialist, or Fascist, is that the liberal believes the ee development of individuality is an essential of civili-tion. As Wilhelm von Humboldt put it, the object owards which every human being must ceaselessly direct s efforts . . . is the individuality of power and develop-ent"; that for this there are two requisites, "freedom and variety of situations." Spontaneity, on the other hand, to e statists, whatever their benevolent aspirations, is viewed

The true liberal, however, believes the free development of individuality an essential of civilization.

only as a troublesome obstacle to the general acceptan of what the planners have decided is best for mankin The American Republic as it exists today is a strikin example of what can be accomplished by individual vig and manifold diversity. Our wealth, our scale of livin our cultural achievements, our military power, are n primarily the consequence of great natural resources, great natural capacity, but in large part represent t achievements of the untrammeled human spirit.

He recognizes the necessity of some limitations on individual freedom,

My freedom to swing my arm, as someone h observed, is limited by the location of the end of m neighbor's nose. Society, acting through government, ma curb my liberty by prohibiting me under criminal penalt and civil liability not only from hitting my neighbor nose, but from causing him annoyance by threatening hit it. In addition to positive harmful acts, failure to a may be hurtful. One cannot maintain a freedom to allo weeds to grow on his land, if he thus creates a nuisan to his neighbors. When dependents are involved, freedo to act in respect of them may be replaced by duties whic are a matter of social concern. Even where a relationsh is the result of voluntary choice of both parties, f example in the case of employer and employee, the superi position of the employer in controlling the conditions work often justifies restricting his freedom to the exte of requiring him to provide a safe and sanitary place employment. The breaking of a promise is an injury to o who relies on the promise. Here likewise the freedom the promiser is appropriately subject to the enforceme of his duty.

but insists upon a careful balancing of liberty and restraint on the scale of social advantage.

Whether or not freedom should be curbed requir a nice balancing of the social advantages and disadvantag of the liberty and the restraint. Not all conduct whic unfavorably affects others should be restrained. If tw employees are competing for a promotion, two studen for a scholarship, two grocers for the trade of a bloc the success of one may be the misfortune of the othe Nevertheless, as long as the methods of competition satis the ethical standards of the community, the general we fare is advanced by freedom.

The proper bounds of freedom are affected by ci

cumstances. One may sing in his bathtub, but not from the gallery of a theater; one may walk up the street, but not as the member of a mob; one may write about the activities of a seaport, but not if it is a naval base in wartime.

There can be no conflict between human rights and property rights, for property rights are major human rights.

Many people often assert that they prefer human rights to property rights. If they mean that it would be often desirable if an individual gave more heed to intellectual, artistic, and moral values than to possessions, their position would deserve sympathetic attention. Even so, they should be reminded that cultural advance is a matter of individual attainment, stimulated by example and persuasion and not by state intervention. The phrases about property and human rights ignore the fact that protection of a man in the possessions which are the product of his efforts, either alone or in cooperation with others, is not for the sake of the property but of the human being. Property rights *are* human rights. No human being can develop his personality without control of his own property, subject to the limitation that his possessions must not be used for the harm of others. The attempt to find a conflict between them is a cloak for some scheme of redistributing possessions, of ignoring the interests of a part of the population for the alleged advantage of another part. Such a procedure usually has the political purpose of creating a majority by bribing those who have less with governmental resources obtained by exactions on those who have more. The obvious evil of such a practice, however disguised, is that no interests are secure and the criterion of public welfare as a basis of governmental action is abandoned.

The True Tests of Liberalism

Only trespass on the rights of others can justify restraint of an individual.

Freedom prevails, therefore, where the individual is subject to no restraints except those of impersonal law, or, in the words of Voltaire, "freedom exists in being independent from everything but law." Law consists of rationalized rules based on ethical concepts and the nature of the individual. Law is thus derived by reason from the human conscience. The permissible restraints of law are

those that protect the individual in person, reputatior and possessions. "Every man," according to Adam Smitl "so long as he does not violate the laws of justice, is lef perfectly free to pursue his own interests in his own way. "It is evident," Humboldt wrote, "that political activit can extend its influence only to such actions as imply direct trespass on the rights of others; to the task c deciding cases of disputed right; to redressing the wronge and punishing the wrongdoers." Security, except for th special solicitude of the state for the immature and th deficient, means protection from the attacks of foreig enemies, from encroachments by the state, and agains domestic disorder.

A free society assumes free bargaining, free contract, free competition.

The free society expects the individual to attai positive freedom by his own self-reliance. It assumes th possibility of growth, learning, and modification of char acter. In economic life, free bargaining and free contrac are substituted for state controls. Competition and suppl and demand are relied on to prevent extortionate price or unduly low prices.

The test of collective action should be its contribution to the liberty of the citizen.

The liberal test of all collective action is whethe such action contributes in the long run to the developmen of individual potentialities. In addition to social policie which safeguard the individual against harm from other and interference from government, there are social enter prises, sometimes governmental and sometimes other grou activities, which maintain civil liberty by creating condi tions under which men can live in freedom. The educa tion of the young, the protection of the public healtl the relief of distress, and insurance against disaster, a contribute indirectly to the liberty of the citizen and ma appropriately be supported by government when privat enterprise is inadequate. Beyond these there are legitimat activities of government for the general welfare, of whic the establishment of public parks and museums is a char acteristic example. Even here it should be observed tha the individual values most that which he acquires by hi own effort or by voluntary cooperation. When govern ment action extends to direct gifts to the individual, ther is the inevitable disintegration of character that alway comes when one can get something for nothing. Whateve

the inherent present soundness of the American character, there is no reason to expect that a government policy of bread and circuses would have a different sequel in the United States from what it had in ancient Rome.

Extension of governmental power involves inefficiency of service and absorption of population into government machinery.

The extension of governmental power must always be viewed with suspicion. Government enterprise generally is not so efficient as the enterprise of individuals and voluntary groups. Moreover, as the scope of government increases, it tends to incorporate an ever larger part of the population into its machinery. To the extent that they are competent persons they are thus withdrawn from the fields of private enterprise. If they are zealots, they admit no popular obstacle to their reforms. They know what is good for the people, and no nonsense about liberty is going to stand in the way. Even routine civil servants tend, especially in a democratic republic, to acquire an undue influence over the lives of the whole people.

Our institutions have remained free because of the practical sense of our people.

The genius of the English-speaking peoples for government has been best expressed in their ability to resist the tyranny of political dogma. English and American institutions have persisted so far without too great inroads upon human freedom, because of the practical sense of their peoples in making practical choices guided by the spirit of their respective constitutions. The purpose of American government is summarized in the phrases of the preamble to the Constitution where the people declare the Constitution is established to "promote the General Welfare, and secure the Blessings of Liberty to ourselves and our Posterity."

These problems will be considered: (1) Extent of government interference; (2) division of government functions; (3) public enterprise; (4) administrative tribunals.

In the ensuing pages, applications of the principles which should guide the American people in making practical decisions as to the role of government in relation to the individual in the United States are discussed in four sections, as follows:

I. How far should government interfere (by law or regulation) with the life of the citizen?

II. How should the function of government be divided among federal, state, and local agencies?

III. What enterprises should be undertaken by government?

IV. What is the proper function and procedure o administrative tribunals?

I. How Far Should Government Interfere with the Life of the Citizen?

Our basic laws are in many respects a development and application of principles of Magna Charta, the English Bill of Rights, and our Declaration of Independence.

Law is made up of rules, which organized societ enforces by the instrumentalities of the state. In the Unite States these rules consist of the expression of fundamenta principles of justice embodied in the federal and state con stitutions; the "common law," as developed in Englan and extended and applied by American courts; the rule of equity, amplifying and giving additional protection t common-law rights; and the statutes passed by Congres and the state legislatures, supplemented by municipal ordi nances and administrative regulations. Our constitution law is in many respects a declaration, restatement, an application of the principles of Magna Charta, the Englis Bill of Rights, and the American Declaration of Independ ence.

Constitutional provisions aim to assure civil liberty.

American constitutional law, in its provisions relat ing to the protection of basic individual rights and to th structure of a republican form of government in whic there is a separation of powers, is designed to assure civ liberty. Equality before the law and impersonal applica tion of the law are essential parts of our constitution system.

Restraints Appropriate to a Free Society

Criminal laws are directed against violation of individual rights.

Although the ordinary law of the land has muc in common with the law prevailing in other civilize countries, its rules have been formulated and applied i accordance with the theory that the primary purpose c government is the advancement of individual freedon The criminal law deters and sequesters those whose cor duct is violative of the person and property rights of other To a certain extent, too, the criminal law satisfies a popu lar demand for retribution. In recent years the agenci for the administration of criminal justice have give increasing attention to the rehabilitation of the offend

gainst society. The civil law of torts provides for com-ensation by way of damages from those who by positive ct or negligence harm the person, reputation, or property f others. In the broad field of contracts, the law gives lamages for the breach of business promises or, in some ircumstances, provides for their specific enforcement. The aw of property safeguards the individual in his ownership f land, chattels, and intangibles. Procedure rules exist to rovide convenient access to the courts.

Civil laws provide compensation for damage by others, safeguards for ownership of property, regulations to promote public safety, and other rules for situations in which the benefits of freedom are outweighed by the harm unrestricted freedom might do.

To reduce the danger from services for which spe-ial fitness is required, preventive rules are established equiring proof of fitness as a condition of exercising ertain functions in the community. While such rules lo restrict freedom of certain individuals, their impersonal pplication is no contradiction of the theory of civil lib-rty. In the same category of permissible restraints are uarantine regulations, which prevent the free movement f persons with contagious diseases, and such laws as those elating to zoning, safety appliances, and the maintenance f nuisances. Rules of this sort merely express the will of rganized individuals that none of their number shall act r use his property in such a way that, on balance, the arm done by his freedom plainly outweighs the benefit f his liberty.

When the individual controls natural resources, such s forests or petroleum, which are limited in total amount n the nation, and are of great utility to the whole economy, is of legitimate public concern that ultimate harm not e caused to others by the wasting of such assets. Laws elating to the conservation of natural resources, especially hose in the public domain, are illustrations of the principle hat liberty may be restrained to prevent harm. In respect f forests especially, where unwise use not only may dversely affect the national wealth but may cause positive arm to other landowners, a certain limitation upon the eedom of the owners is clearly justifiable. In the case of hildren and other irresponsible persons, restrictions upon heir liberty as well as upon the liberty of those having sponsibility for them are in accord with the principles f a free society.

Likewise laws relating to conservation of natural resources and to the restriction and protection of children and irresponsible adults serve purposes consistent with liberalism.

Controls That Exceed Limits of Liberalism

But when even such laws place undue burdens on the law-abiding and involve exactions that outweigh the benefits, they should be revised to assure a net social advantage.

While no one would deny that laws restricting lib erty, for the purpose of preventing financial harm b fraud or otherwise, may include preventive aspects such : requirements for licensing, furnishing of bonds, making c reports, and the like, such laws should not place an undu burden on the law-abiding as the price of protecting tl unwary. American statute books are filled with laws th: violate this principle. For example, legal rules for the pro tection of an infant's property from embezzlement by natural guardian are sometimes so burdensome in the requirements of formal appointment, reports, and bond that the net result is that an infant whose father or moth is his guardian can obtain little, if any, income from h assets. In some states the impediments to mortgage for closure and the extended privileges of redemption, whic benefit slightly and at rare intervals only a few worth debtors, result in raising interest rates to all mortgagor Few would deny that government should prohibit by la and regulation the fraudulent issue and manipulation c securities; but when this control is so excessive as to hand cap legitimate business transactions and impose uncor scionable delays and expense upon law-abiding citizen the burdens of governmental intrusion constitute a exaction which far outweighs the benefits. Legislato would do well to review existing statutes and new pro posals with a view to a more practical appraisal of wh rules may reasonably be expected to be of net soci advantage.

The purpose of protection of human rights should not be used as a cloak for unnecessary centralized direction of human activities.

Some recent legislation, such as that limiting tl production of certain crops, has threatened dangero inroads on civil liberty by restricting individual freedo for what is thought to be the ultimate good of the inc vidual restrained or of a group of which he is a part. some labor legislation, conduct harmful to others has be sanctioned to individuals in one group, while forbidden individuals in competing groups. In the National Lab Relations Act government agencies have been authoriz to receive and pass upon complaints from one of two com peting interests without hearing the other side. This te

ency to place government at the service of special nterests and to impose legal constraints for the purpose of naking government intervention effective is a retrogres-on to periods of governmental controls that are the ntithesis of genuine liberalism. The tortuous reasoning by which such governmental policies are supported as being or the general welfare take little account of the implica-ions of such a reversal of American traditions and the ossible consequences in the undermining of individual nitiative and self-reliance. Much humanitarian legislation in accord with the principles of liberalism. The American eople, however, should be vigilant to recognize the point when protection of human rights becomes merely a cloak or centralized direction of individual activities.

II. Powers of Federal, State, and Local Governments

Just as the individual should be free except insofar s government can make out a clear case for restraining is freedom, so the burden should be on every larger gov-ernmental unit to show the necessity of withdrawing ower from units closer to the people. To the extent that ocal and state governments provide the best instrumen-alities of legislation and administration, with respect to he legitimate interests of their own citizens and the citi-ens of the country as a whole, the independence of local nd state action should be preserved.

As government needs a clear case to justify restraint of individual freedom, so a larger unit of government must justify trespass on authority of smaller units closer to the people.

Preservation of this independence does not inhibit ooperation of the cities and states with the national gov-rnment or with each other. Governmental institutions oinciding in the same area should not be regarded as jeal-us rivals for power, but as friendly allies. Debate about he relative functions of federal, state, and local govern-ments is too much filled with the shibboleths of conflict. ome of this debate is salutary as indicating both a vigi-nce in the defense of American liberties and a concern hat the national government shall assume responsibilities onsonant with public needs. Nevertheless, a great deal of his heated controversy is sterile and invites recollection of Iadison's sober statement:

Cooperation of governmental units, rather than subordination or conflict, should be practiced.

It is a misfortune inseparable from human affairs that publi measures are rarely investigated with that spirit of moderation whic is essential to a just estimate of their real tendencies to advance c obstruct the public good; and that this spirit is more apt to be dimir ished than promoted by those occasions which require an unusual exer cise of it.

"A Confederate Republic"

Our Constitution established a "confederate republic," leaving with the states all authority that concerned their citizens only.

The Constitution established not a federation nor centralized national administration, but, in Madison words, "a confederate republic." We have a dual, or, a Woodrow Wilson preferred to call it, a "double" govern ment. It is not a federation, because, as Hamilton observec the authority of the national government is not restricte to members in their collective capacities. It is not a cen tralized nation like France, whose departments are mer units of local administration with powers delegated by th central government. De Tocqueville noted that the Unite States has a central government but not a central adminis tration. Jefferson thought the object of the Constitutio was to leave with the states all authority that respecte their own citizens only, and to transfer to the Unite States that which respected citizens of other states an foreign nations; "to make us several as to ourselves, bu one as to all others." Bryce called us a commonwealth a well as a union of commonwealths.

The states retain all powers not specifically delegated to the national government or prohibited to them.

Since the Constitution creates a national goverr ment of delegated powers, it does not grant powers to th states. The powers of a state can be ascertained by excluc ing the powers expressly or by implication granted to th federal government and noting also the prohibitions on th states. The reader is doubtless familiar with the prohib tions contained in the original Constitution and in th subsequent amendments, especially those forbidding th states to impair the obligation of contracts or to deny du process and the equal protection of the laws.

The states retain jurisdiction over contracts, subje to constitutional limitation, such as that against impairir the obligation of contracts; over domestic relations, pr vate property and inheritance, the creation and regulatic of corporations, the general rules of legal liability; in sur

over the whole field of private civil law and the greater part of criminal law. The significance of state law is enhanced by a recent decision of the Supreme Court which requires the federal courts to follow state decisions in applying the law of the state. In addition the states have entire authority over local government and prescribe the qualifications of voters, subject to constitutional limitations forbidding discrimination on account of race, color, or sex. Even such an extensive summary is only illustrative of the wide area of government which has at all times been reserved exclusively to the states. The exact determination of state and federal jurisdiction, however, presents constitutional problems of great difficulty.

Continuance of state authority stimulates local interest and participation and encourages experimentation and adaptation in legislation and administration.

The accepted functions of state government and the existence of their separate legislative, executive, and judicial establishments should not be disregarded. Their continuance stimulates the interest of the citizens, invites the participation of able men in state government, encourages the states in political experimentation, and makes possible a flexible adaptation of significant legislation to local needs. Increase in the length of terms of the principal state officers, improvement of their salaries, and enlargement of their appointive powers are having a salutary effect on the dignity and efficiency of state administration. In many fields, the protection of the states against federal encroachments is a simple matter of the political independence and capacity of state officers.

Centralization of Financial Control

But control of the federal government over the nation's financial resources has grown greatly, especially in past 30 years.

Impressive recent figures of federal revenues, expenditures, and debt (see Chap. XV) tell their own story of the growing financial power of the central government. In the early days of the republic the insignificant cost of the federal government was met almost solely from tariffs. Even following the Civil War tariffs and excises provided ample revenue for federal needs. The income tax amendment of 1913 and two wars have accelerated the tendency to centralize in Washington control over the financial resources of the nation.

In 1916 the receipts of the federal government were

782 million dollars and the expenditures 734 million dc lars, or $7.29 per capita. The national debt was 1,225 mi lion dollars. By 1939, receipts were 5,667 million dolla and expenditures were 9,268 million, or $70.65 per capit The national debt was 37,164 million dollars. The outl of the national government had increased from abo 5,000 million dollars in 1933 to almost double that amou in 6 years. In 1945 the receipts were approximately 47,0 million and expenditures about 100,000 million dollars $717 per capita. The national debt was 258,682 millic dollars. By 1945 about four fifths of the revenue can from taxes on individual and corporation incomes. R ceipts for the fiscal year ending June 30, 1946, were abo 43,000 million dollars; expenditures, about 65,000 millic dollars. The national debt on that date was about 27 billion dollars.

In 1912, federal taxes were 28 per cent of the Amer can tax dollar, state taxes 14 per cent, and local taxes 5 per cent. In 1932 the respective percentages were 23, 2 and 54. By 1938 the figures were federal 41, state 26, ar local 33. Taking account of the object of expenditure the tax dollar was used 35 per cent for federal purpose 21 per cent for state, and 44 per cent for local objective Prior to 1911, national aid to the states was primarily lar grants for the endowment of state higher education, esp cially in agriculture. This aid is reflected in the popul designation of many state universities as land-grant co leges. Direct federal subventions to the states before 191 amounted to less than 5 million dollars annually, n including assistance to the National Guard.

Grants-in-aid have become a common form of inducing states to engage in various activities.

Since 1911, and especially since 1933, grants-in-a to implement established state enterprises and to furni an inducement to the states to engage in various activiti have shown such expansion that these grants in 193 amounted to 633 million dollars, excluding direct expend tures of the federal government for relief and local publ works.

Grants-in-aid, requiring a state contribution c either an equivalent or some other basis, have concerne forest fire protection, vocational education and rehabilit tion, agricultural extension, maintenance of nautic

schools, reforestation, the national guard, maternity, and especially highway construction and social security.

Congress has shown a tendency not only to require formal acceptance by the states and the establishment of appropriate administrative machinery, but to lay down standards as a condition of state participation and to provide for continuous federal supervision.

Objections to grants-in-aid have been urged on theoretical grounds of encroachment upon the powers of the states; as well as on the grounds of the separation of the privilege of spending from the necessity of paying taxes to the same extent, the undue burden upon the wealthier states, the danger of the growth of federal bureaucracy, the unwise selection of objectives, and the disproportionate outlays for particular purposes.

The people are free to use the financial strength of the federal government to aid states in performing their functions.

Sovereignty, however, as the Supreme Court has explained, is neither in the national government nor in the states, but in the people. The people should be free to weld the financial strength of the federal government to the wider local authority of the states in order to advance the general welfare. Services of national concern in some states cannot be financed without resort to taxation at points where wealth derived from nation-wide operations is concentrated. The federal government is thus preserving the states by furnishing them the means to fulfill their appropriate functions.

There is an almost total absence of concrete evidence that the establishment of federal standards as a condition of educational grants-in-aid has been oppressive upon state administrators. A few days of inspection by federal officials does not mean Washington domination. It is obvious, however, that as federal funds for state purposes increase, there is a growing danger of federal encroachment upon state functions.

But there is danger that expansion of such aid will impair state authority and local responsibility.

With the extension of federal services into the social security field, the broadening of the program of highway construction from interstate to local roads, the establishment of federal employment offices, and the suggestions for further federal responsibilities for local education, the question of putting limits upon federal aid and federal supervision and administration becomes a matter of pres-

ent and acute importance. The difficulty of forcir reasonable bounds on federal authorities indicates that would be better to begin a gradual retrenchment of grant in-aid, especially since once backward areas are rapid increasing in prospects and capacities for assuming respo sibility for local needs.

Defects of grants-in-aid system are (1) neglect of adequate survey of conditions, (2) inequity of apportionment of funds, and (3) temptation to waste.

Two serious defects of grants-in-aid, particularly relation to social security, are (1) the formulation policy in advance of an adequate survey of all the releva considerations and (2) the inequity of the apportionme of funds. Cupidity of state authorities and the activity pressure groups, such as those working for old-age securit may induce the states to expand certain services, f example old-age pensions, to the neglect of education a other federally unaided enterprises of public welfare. T matters which are of greater state concern may be pass aside in favor of others of more immediate politic popularity.

The generosity of allotments for some purposes al is a temptation to wastefulness. Federal expenditures North Dakota amounted in 1938 to 39.9 million dolla North Dakota's expenditures, less federal aid, in 1932, f all state and local governments were only 41 million do lars. In South Dakota federal aid in 1938 was 3 millio more than South Dakota expended for all public purpose less federal aid, in 1932. The dates selected are chose because the year 1932 represents the last year before marked expansion of grants-in-aid and because 1938 is t last year before preparations for war significantly affecte government expenditures. These figures (and others whic may be found in Chap. XV) strongly suggest the absen of sound planning in the distribution of federal mone They show how easily federal policy in a state cou become one of rule or ruin.

Other Expansion of Federal Control

The national government, by statute and admini trative action under the commerce power, has entered ce tain areas of control formerly left largely or entirely the states, although in these areas the functions of the stat

ave not necessarily decreased. Federal acts, such as those rohibiting or restricting interstate commerce in lottery ickets, obscene literature, forged bills of lading, wild ame illegally killed, liquor, women for immoral purposes, npure and misbranded goods, stolen automobiles, escap- ıg felons, kidnapped persons, convict-made goods, and rticles manufactured by child labor, are in furtherance f state policies in many states and in most cases represent response to demands of the states themselves. Federal egislation involving such subjects as, among others, deal- ıgs in securities and interstate movement of criminals, robably can accomplish results where effective state ction is difficult if not impossible. Considerable provision made for state participation in the administration of umerous measures where the national government takes he paramount responsibility. Although several of these cts involve large increases in the civil service and direct ontact with the citizens, objectionable intrusion into ocal affairs or their enterprises has been much less marked han in the administration of relief and public-works rojects. If the states maintain their sense of responsibility nd show a willingness to cooperate while maintaining ndependence of judgment and action, the net result hould be no serious diminution of state functions. This is articularly true because the liberality of the Supreme Court in its interpretation of the commerce clause has een matched with an equal liberality toward state legisla- ion relating to intrastate commerce.

Many other areas of control have been entered by the federal government, where state controls had become inadequate or ineffective, but often in furtherance of state policies and with state cooperation.

nterstate Cooperation

In addition to cooperative efforts involving the tates which have resulted from public expenditures by the ational government and the exercise of the commerce ower, the states themselves have evolved a number of ıethods for solving interstate problems and organizing armonious interstate action. In some of these methods here has been federal participation.

Among the most important interstate devices are 1) conferences of state officials, (2) interstate adminis- rative cooperation, (3) uniform state laws, (4) recipro-

Interstate cooperation has grown, also,

through (1) conferences of state officials;

cal state legislation, and (5) interstate agreements ar interstate compacts.

Practically all state officials from governors to boil inspectors hold periodic conferences and most of the have permanent national associations. In addition there a other associations such as the National Prison Conferenc whose membership includes others besides state officia The cumulative effect of these organizations in maintai ing the independence of state action and improving legi lation and administration can scarcely be overestimate

(2) arrangements between administrative officials;

Administrative cooperation is in part a product association in national and regional conferences and in pa the result of informal arrangements with administrato in adjoining states; for example, in connection wi motor-vehicle regulation and criminal-law enforcemer Some administrative cooperation has been the consequen of interstate compacts.

(3) organizations to promote uniformity in state legislation on appropriate subjects;

The National Conference of Commissioners Uniform State Laws is an official body in which all stat are represented and which is supported financially in pa by many states. Although it is not the only organizati which has done effective work for uniformity in sta legislation on subjects where uniformity is desirable ar practicable, its activities have been the most significar The Commissioners, usually with the cooperation of inte ested parties outside their organizations, draft and prese to the states uniform or model statutes. A high degree uniformity has been attained in the laws of negotiab instruments, bills of lading, warehouse receipts, sales goods, and certain fields of crime prevention, particular in respect of firearms.

(4) influence of federal agencies;

Federal law-enforcement agencies and federal len ing agencies have also advised and had much influence obtaining legislation with a considerable degree of ur formity in order to ensure better coordination betwe federal and state authorities. Among such laws are the relating to motor-vehicle regulation, motor-operato licenses, highway traffic regulations, and the theft of mot vehicles; also laws enabling citizens and corporations have the advantages of federal housing, farm cred deposit insurance, social security, and other grants-in-a

statutes. Whatever the pressure from promises and pecuniary inducements, these state laws have been enacted in accordance with the states' usual legislative procedure.

Reciprocal legislation, like administrative cooperation, has been due both to informal arrangements between states and to formal interstate compacts. Much of this legislation concerns the licensing of motor vehicles and operators.

and (5) formal interstate compacts.

Interstate compacts are more formal and permanent than the methods of interstate cooperation heretofore discussed. Under the Constitution an interstate compact can be made only with the consent of Congress. Congress may consent before the ratification of a compact by the states involved or even before the negotiation of a compact, as was done to encourage compacts relating to forest conservation and cooperation in the administration of criminal justice. Approximately 90 interstate compacts have been negotiated, most of which have been ratified by the states negotiating them and approved by Congress. Early compacts chiefly concerned interstate boundaries. Recent compacts have dealt with interstate streams and harbors, interstate public works such as bridges and tunnels, conservation, interstate tax adjustments, and labor standards. Among the interstate authorities set up by compact are the Port of New York Authority, the Palisades Interstate Park Commission, and the Ohio River Valley Sanitation Compact Commission.

Advantage of Maintaining Local Government Responsibility

Diversity in ability and character is recognized in every community, and leadership emerges naturally.

The individuals who make up this nation differ greatly in ability and character. All men are created equal before the law, but they are not endowed with equal talents. In every schoolroom a few children have better minds than the rest, better habits of work, wider imagination, and greater capacity to sacrifice present indulgence for a future goal. In every high school and college some boys demand a job at once, want to get married immediately, while others are willing to forgo present comforts and pleasures to spend patient hours of study and apprentice-

ship to prepare themselves for exacting duties. In eve American community the larger rewards will generally to those with greater natural capacity, greater adapt bility, sounder character, better training, and more patie industry. People with opportunities for mutual conta and appraisal instinctively recognize the difference amo their neighbors and accept the guidance of those endow with superior qualities.

The so-called "middle class" represents local leadership.

A republic is safe as long as it chooses leaders wh followers represent a cross section of the community. politics, leading citizens will often disagree and their d ferences will be reflected in those near them who defer their judgment. Thus the voice of the nation becomes t opinion of the majority of the professional groups, t business executives, the skilled artisans, the farmers, t writers; in short, of the men who stand out by reason their achievements. We call them the "middle class," n because they have a class consciousness or because th ranks are closed, but as a convenient indication of th central place in the economic and social life of the natic Such persons constitute the established families who ta care of their own dependents and support churches, cha ties, and educational institutions.

An adequate sphere of local responsibility for government should be maintained to enable that leadership to function which arises from personal contacts.

These groups of the competent and self-reliant ha much to fear from the growing power of the federal go ernment. The power of this middle class is greater wh the personalities of its members can influence those w know them. In town and state their power comes fro direct contact with others. If the leaders of the fede government become alienated from the middle class, t influence of this group is threatened because it is n united, and even if it were united it is outnumbered. O function of the states and local communities should be protect the continued influence of a middle class, oft the forgotten men in national policy. The states can do t by preserving every form of local control which is co patible with the promotion of the general welfare.

The Growing Pressure toward Centralization

The growing integration of industry, transport tion, and communication, as well as the permanent

arged significance of foreign relations, must inevitably :rease the total proportion of governmental power exer-ed from Washington. In this centralization of adminis-tion there are unquestioned dangers. The annihilation distance by airplane and radio does not guarantee that administrator in Washington, D. C., knows the facts ential to make a wise decision on a situation arising in kima, Wash. Moreover, to the extent his authority mes from above, the federal administrator is relieved of necessity of justifying his actions to those to whom it plies. This political irresponsibility contains in it the rms of bureaucratic tyranny. The possibility of the use federal power for partisan ends is disquieting.

Even the normal expansion of federal authority involves unquestioned dangers.

The number of federal employees is itself a threat to y curb on expanding federal authority. From 1922 to 32 the federal civil service in Washington remained at out 70,000, and outside the capital increased in the cade only slowly from a little over 500,000 to less than 0,000. In the next 10 years the civil service in Washing-n had more than doubled before the war, and now is out three times what it was 20 years ago. Outside of ashington it had also doubled before the war, and since 41 again has doubled. The grand total in 1945 was in cess of 3.5 million including over 150,000 civilian ployees outside the continental United States. In July 46, it was still over 2.7 million.

The number of federal employees makes curbs on expansion difficult.

The increased number outside of Washington is e to the enlargement of federal activities, to the estab-ment of federal regional offices, and to the removal m Washington of entire federal agencies. For example, Securities and Exchange Commission is now in Phila-phia, the Farm Credit Administration in Kansas City, Railroad Retirement Board in Chicago, and the Rural ctrification Commission in St. Louis. The number of eral employees in the states generally exceeds the num-of state employees. For example, in Pennsylvania there 44,500 state employees, 215,000 federal employees; in ssachusetts 21,000 employed by the state, 199,000 by nation; in Wyoming the federal employees are 6,200 l the state's 1,100. (Recent reductions may have nged these figures, but probably not greatly.)

In many states it exceeds the number of state employees.

To this is added the power of centralized publicity.

In many states, in peacetime, federal employees an their families are sufficiently numerous to determine th state's electoral vote in a presidential election. Althoug the Hatch Act forbids certain forms of political activit by federal and state employees in connection with enter prises financed in whole or in part by federal funds, i does not affect their self-interest, the weight of their num bers, or the more subtle forms of political pressure the can exert. The number of federal employees combine with the power of centralized publicity, especially b radio, to induce the uncritical acceptance of catch-word to move multitudes by appeals to prejudice, to promis gifts from government at the cost of individual initiativ and ambition, threatens some of the deepest traditions o American life. If this danger is to be minimized, the main tenance of genuine merit systems of appointment mus be constantly supported by public opinion.

The maintenance of genuine merit systems of appointment is therefore especially important.

Recognizing the difficulty of cooperation wher there is disproportionate power, especially where the mor powerful control funds essential to the weaker, the stat should cooperate in federal activities which accord wit state policies but should resist encroachment on loc administration. Vigor, efficiency, and independence o state officials who have an intelligent conception of the own problems can do much in cooperation with othe states to protect the states from subservience to feder authorities.

And increased efficiency and cooperation of state governments will aid in curbing federal encroachment.

Formal and informal cooperation among the stat themselves can counteract in some degree tendenci toward excesses in national controls. In the last analysis, a informed public opinion is the best safeguard of a repr sentative government. The citizens of the states are al citizens of the nation, and as such can make themselves fe in national affairs. If political divisions are determined b class issues, stimulated by demagogues willing to obtai power by catchwords creating a majority on the basis o direct dependence upon the central government, th future of the states and of American traditions is a gloom one. On the other hand, there is reason to hope that polit cal intelligence still controls America and is still devoted t self-government. The utility of the states and their loc

gencies, as proving grounds for political experiments and s training schools in government, is still generally recognized. With a spirit of moderation and cooperative good will, wise adjustments can be made between states and nation by which the function of the state can be preserved. As Chief Justice Marshall said in *McCulloch v. Maryland*, "A certain amount of confidence in the bona fide intentions of the various governments making up our federal whole must exist, for without it a government of dual sovereignties is impossible."

III. Government in Business

The Marxian theory of inevitable class separation and conflict has been disproved in the history of the United States.

Karl Marx believed that machines in an industrialized state reduced the people to two classes, which he called the bourgeoisie and the proletariat. The bourgeoisie owned the machines, the proletariat operated them. The bourgeoisie were few, the proletariat many. Governments were created and controlled by the bourgeoisie because they happened to own the instruments of production. All production was accomplished by the workers. If the workers would unite, they could break their chains and seize political power. The machines, and indeed all property except the most personal chattels, would belong to the state and be operated for the benefit of the workers. The bourgeoisie would be liquidated as a class of negligible parasites.

The history of the United States contradicts this theory of Marx and nullifies his teachings. The American workingman, often a homeowner with his own car and modern household appliances who actually participates in community affairs, has never in fact or in his own belief belonged to any group that remotely resembles the fictitious proletariat described by Marx. In America, corporate shares, which represent the ownership of a great many machines, are the property of about 9 million persons. Many of these shares are owned directly by workers, who also indirectly own additional millions of corporation securities through banks and insurance companies holding their savings. Workers themselves have become capitalists. The bourgeoisie, instead of being only a few of the highly

privileged, in the United States are a great majority of tl population.

Yet the effort has persisted to find a class struggle—or to create one.

Notwithstanding the actualities of American lif we have always had a vociferous group of disciples of Mai who were determined to find a class struggle or, if it cou not be found, to create one. Some of these disciples were foreign origin and had little knowledge of the Unit States or of its institutions and traditions. The Marxis included Communists and various types of Socialis evolving toward or away from Marx. These factions we always in violent conflict among themselves. The commc element in all their programs was some degree of goveri ment ownership and operation of industrial enterprise

The Appropriate Fields of Government Enterprise

Enterprises appropriate for government are such as have general public benefit which is not easily valued in monetary terms; such as involve services practically everybody requires; and others justified for police purposes.

Three forms of enterprise are an appropriate respor sibility of government. The first sort consists of enterpris of general benefit to the public; but this benefit is difficu and impossible to value in monetary terms, or is partly direct benefit and partly of intangible value, so that it impracticable to operate the enterprises on a commerci basis. Schools, highways, parks, fire protection, flood coi trol, harbors, and irrigation projects are enterprises of tl sort which are regarded as properly, though not exclı sively, governmental.

A second type of activities accorded generally government is the rendering of services which are requir by almost all persons, either in the entire country or in particular area. Characteristic enterprises in this catego are the post office and water works.

A third type of government enterprise may be just fied for police purposes, especially in its motivation. A illustration of this is government activity in connecti with the Alaskan seal industry.

Outside this range, the success of government in business is unlikely.

The success of government ownership and operati in the United States outside this range, to any significa extent, is unlikely for both theoretical and practical re sons. The argument that an all-wise king or dictator, wi a comprehensive scientific long-range program for l country, could accomplish more for his people than inc

idual competition asserts a conclusion based upon a false remise. The coincidence of a leader with such wisdom nd objectivity and his investment with the requisite uthority is itself unlikely. The continuance of such a egime long enough to realize idealistic dreams would be ontrary to all human experience. As far as a country with epresentative government is concerned, any argument as o possible benefits from unified economic planning and ontrol depends upon assumptions of capacity and coninuance in office which are obviously figments of imagiation.

It would involve capacity and continuance of central authority beyond reasonable expectation.

The practical objections to governmental participaion in business in the United States are so apparent that o extensive program of government ownership and peration has ever received much popular support. The ssential nature of our political institutions makes them nsuited for the management of commercial enterprises. n the first place, the employees of a large government nterprise, for example a government-owned railway sysem, would be sufficiently numerous to exercise a real ressure on government, either by themselves or in alliance vith other government employees. At the same time olitically numerous groups employing the services of the ailroads would make it politically inexpedient for govrnment to determine rates on a commercial basis. What night happen in the regional allocation of projects for xtension and betterments can be guessed by recalling the istory of peacetime American appropriations for military amps and for harbor and navigation improvements. lthough much expenditure has been of public benefit, a reat many appropriations have represented merely the istribution of federal largesse solely for political reasons. ven in respect of public enterprises whose usefulness is dmitted, inefficiency and extravagance have been characeristic of many governmental activities.

It would subject enterprises to such political pressure from groups inside and outside as to prevent businesslike operation.

xamples of Government in Business

Governmental ownership and operation as a monopy mean inefficiency, political patronage, waste, and loss, hich is a charge upon the taxpayer.

The post office furnishes an illustration of the be that can be expected from government in business. Th service furnished is essential, and a certain minimum c efficiency is necessary to avoid popular resentment.

The Post Office illustrates the best that can be expected of government in business; it is not operated with efficiency and economy.

The Post Office Department, instead of having director of posts removed from politics, has generally bee in charge of the chief politician of the party in powe Until recently, most postmasters were local politic leaders. The object of the recent inclusion of postmaste in the classified civil service may not have been wholly di connected with the desire to retain present politic appointees in the event of a change in administration. I any efficient organization, promotions would be made n only from one office position to another, but from tl smaller cities to the larger. Nothing remotely resemblir such a practice prevails at present. The post office must l almost the only large-scale business in the United Stat which has no research department.

The Post Office Department is charged with no co for sites or buildings. It makes no charges for depreciati and obsolescence. It has no insurance costs. It pays r income, property, or payroll taxes. Pensions are not charge on postal revenues. The post office carries ma through city streets by truck, with the exception of or privately owned pneumatic tube in New York Cit Other public-utility services have extensive undergrou facilities.

In the past 30 years, first-class postage rates ha increased 50 per cent while long-distance telepho charges in the same period have decreased 50 per cer Besides carrying letters, the post office transfers mone moves parcel post, and has a special delivery and regist service. It loses money on all of these except on its fir class business. On several of its services, it competes wi private interests, which, after absorbing costs from whi the post office is free, make a profit. Some years ago a pr vate corporation offered to take over the entire post system and promised an average reduction of 50 per ce in rates to render the same services. When one conside that the post office is the best that bureaucracy can accor plish, the record is not one to invite extension of gover

ıent in business. Government in business means politics ıd bureaucracy. The combination has never meant either fficiency or economy.

Government operation in competition with private ıterprise represents merely a dishonest way of confis- ating and destroying the individual business. Government ever plays fair in such competition. Its enterprises have ıx exemption, or their overhead is relieved by charges to ther governmental budgets. Certain services, such as for elegraph and telephone, are available at reduced charges, r the government provides a market without selling xpense. These and other similar devices may enable a gov- rnment enterprise, whose service rates are dictated by olitical considerations, to allege a nominal profit although is actually incurring a loss which it is meeting out of eneral revenues, while its private competitor is being riven into bankruptcy. Such a situation is typical of cities hich allow a publicly owned utility to compete with a rivate corporation. The outcome in many cases is that ıe city can buy the private utility at the price dictated y the politicians. Since this price is inevitably less than ıe price which would have been fixed by a court had the ty originally sought to acquire the private corporation's roperty by eminent domain, government competition ffords an easy way of evading the constitutional prohibi- on against taking private property for public use with- ıt compensation.

In other business services undertaken by government, in competition with private enterprise, not all essential costs are usually counted and unfair competitive practices are used.

Centralization of political and economic control is ot likely to succeed under democratic institutions. The ommunists to this extent are more sensible than the ıoderate Socialists. The Communists realize that govern- ıent domination of business must be preceded by trans- ɔrming the republic into a single-party dictatorship.

IV. Administrative Tribunals

Elihu Root, in an address to the American Bar Asso- ation in 1916, discussed the rapidity of the growth of an lministrative law different in machinery, remedies, and feguards from old methods of regulation by specific atutes enforced by the courts. As Mr. Root said:

The expansion of administrative agencies requires closer regulation of them.

There will be no withdrawal from these experiments. We sha go on; we shall expand them, whether we approve theoretically or no because such agencies furnish protection to rights and obstacles wrongdoing, which under our social and industrial conditions cann be practically accomplished by the old and simple procedure of legisl tion and courts. Yet the powers that are committed to these regulatir agencies . . . carry with them great and dangerous opportunities oppression and wrong. If we are to continue a government of limit powers, these agencies of regulation must themselves be regulated. T limits of their power over the citizen must be fixed and determine The rights of the citizen against them must be made plain.

This expansion has been greatly accelerated by the war.

The tremendous increase in the number of feder administrative agencies since 1933 has been further acce erated by the war. The expansion of administrative proce in wartime so that it touched almost every citizen ar business enterprise made the public realistically aware this device of government. The letters of the alphab must do manifold duty in describing all the agencies. T correct the abuses and faults of administrative tribuna it is necessary to have an understanding of the reasons f their existence, the scope of their legitimate functions, ar their relation to the courts and legislative bodies.

Why Administrative Agencies Have Developed

The steady growth of federal functions has expanded administrative agencies necessarily.

Sylvester C. Smith, Jr., chairman of the Americ Bar Association's Committee on Administrative Law 1943, outlined some of the reasons why administrati agencies are established by Congress. Congress appropria money, but cannot supervise the details of its expenditu If a farmer makes claim to a payment under the Soil Co servation Program, some administrative body must ha authority to decide whether he is qualified to receive payment. Congress can provide for the issuance of pa ports, but it must delegate the power under general stan ards to issue the passports. Pension bills used to be a co stant burden on Congress. Now the Veterans' Bureau h been entrusted with authority to determine the right and amount of pensions. Congress protects the citize from inferior grades of tea, not by assuming the functi of teatasters, but by allowing an executive officer, up the recommendation of experts, to establish unifo standards of purity and quality of imported teas and

exclude inferior grades. In the field of radio broadcasting, where technical knowledge of radio engineering is essential, Congress has deemed it wise to carry out its declared policy through an administrative agency which has constantly available the advice of experts.

Administrative law has developed in part because of the doctrine of separation of powers in the federal government. The constitutional divisions of government cannot be invested, to any great extent, with a combination of executive, legislative, and judicial powers. Efficient functioning of administrative agencies requires this combination to some extent. They exercise the executive powers of investigation, the judicial powers of producing facts and determining issues, and the legislative powers of making laws by supplementing statutes with regulations.

They exercise executive, legislative, and judicial powers.

The early development of administrative agencies promptly brought them into conflict with the courts. Necessary powers of the agencies were denied as unconstitutional because they violated the theory of separation of powers and because of the delegation of Congressional authority. Since the common law was strict in respect of tribunals of limited jurisdiction, such jurisdiction had to be pleaded and proved. Even slight errors of procedure were jurisdictional and the basis for judicial injunction. The result of this conflict was a period of name calling. On one side was a denunciation of what was called a "fourth" branch of government, and on the other a condemnation of the whole doctrine of separation of powers. Friends of administrative agencies advocated their entire exception from judicial review. They favored administrative absolutism in theory and practice, which was admittedly revolutionary and sometimes praised as such. This viewpoint in the last decade has increasingly influenced courts and legislators. The result, as Roscoe Pound recently stated,

> . . . shows increasing assumption of unlimited powers, increasing assumption of unchecked discretion, a growing tendency to enforce policies of their own making with no basis in, or even contrary to, legislation, and characteristic disregard of individual rights and of the canons of fair notice, full hearing, and full opportunity of meeting charges and accusations which in our policy are associated with the guarantee of due process of law.

They tend to assume increasing authority beyond their legislative charters and without judicial review.

Dangers of Administrative Adjudication

Some are reluctant to hear both sides; prone to pursue policies not accepted by Congress; and assume fundamental rights to be privileges held at the option of a government agency.

Mr. Pound has summarized a number of dangerou tendencies in administrative adjudication. The first is ar obstinate reluctance to consider both sides. The adminis-trative agency's directing officers too often wish to decid on the basis of the reports of their own agents, or afte hearing only one party, or after conferring with one sid in the absence of the other. These determinations may b made on the basis of reports kept secret. The agency fre-quently regards itself as an instrument of social polic which has never been accepted by Congress. The apolo-gists for such conduct excuse it because it is supposed t subserve social ends. They make no requirement that th agency deal fairly with all interests involved, as long as i advances some favorite group. It must be remembere that the administrative body is combining the function of investigation, prosecuting, and judging, and that one o the parties frequently is the agency itself. Unless there i a division of functions within the agency to assure inde-pendence of one from the other, administrative adjudica-tion contravenes another basic notion of justice, that n man can be a judge in his own case. The zealous adminis-trator too often thinks of himself as the repository of al privileges. The individual in his activities is to be fre except when he must be restrained for the public good but what have been his rights are to be exercised a licenses from government. Such an ideology can appea only to those who accept the totalitarian state as a goal o progress.

As Mr. Pound points out, the field of administrativ rule making is in as great need of review as the field o administrative adjudication. When the Supreme Court o the United States was entrusted by Congress with the tas of drafting the rules of civil procedure in the federa courts, the rules were first formulated by an expert com-mittee of lawyers, professors, and judges, then after lon consultation submitted generally to the Bar for extende criticism and suggestions, with further study and revisio both by the representative experts in charge of the draft and by the Court itself.

A law before enactment by a legislature is introduced as a bill, printed, submitted to a committee, reported after study and often after a hearing, read three times, debated in committee of the whole, passed by both houses, and must obtain the approval of the executive or a two-thirds vote by the legislature before it is binding on the citizen. Compared to such procedure, the rule making of administrative agencies often follows after only the most casual and frivolous consideration. For administrative rules vitally affecting the citizen, the agency should be compelled to adopt a procedure designed to compel adequate consideration of the interests involved, but the rules themselves should be subject to judicial review both by declaratory judgment[1] and otherwise, to assure that they are within the powers of the administrative body.

Administrative rule making should follow procedure that gives adequate consideration to interests affected, and be subject to judicial review.

Reform Proposals of American Bar Association

The American Bar Association, after extended study by an able special committee, sponsored a bill in 1943 for improving the administration of justice in administrative process. The Association makes no attempt to attack all administrative agencies because in some cases there have been abuses. It recognizes the number of administrators who are patriotic and conscientious and who resent administrative absolutism as much as the citizen affected by administrative decrees. Its purpose is to restrain those administrators who believe they are supreme, that their acts should not be subject to judicial review or scrutiny, or who in their zeal are in a position to do injustice by abuse of the administrative process. The Bar Association is aware of the utility of administrative agencies in preventing action which may lead to public or private injury. Criminal prosecution or private remedy after the event is often an inadequate protection of the citizen. Licensing, with proper enforcement, is one of the most effective preventive remedies.

The American Bar Association, after careful study by a special committee, sponsored in 1943 a bill for reform of administrative procedure without impairing the contribution to be made by administrative agencies.

No one can rightly quarrel with administrative procedure which assures, as far as may be, that airplane

[1] A declaratory judgment is one rendered at the application of a party in interest upon an anticipated issue, not upon an actually existing controversy.

pilots are competent or that all transportation companies adopt the highest practicable standards of safety in the operation of their lines. The Association has no desire to hamper the administrative agencies in their functions. It agrees that, if juries can conclusively determine facts, so under proper safeguard this power can be exercised by administrative tribunals with their authority to enlist the assistance of experts. What the Association is trying to do is to suggest a method by which the abuses of administrative process can be corrected without destroying the contribution administrative agencies can make to American life.

The Bar Association's 1943 bill contains provision which are summarized in the succeeding pages. To avoi hampering the war effort the bill did not apply to agencies whose functions expired within 6 months followin the termination of the war.

It would assure the public convenient access to information about the agencies, their procedure, and their acts.

The first requirement is designed to assure the publi adequate information about an administrative agency The citizen ought to be able to find out where to go to a agency and whom to see when he gets there. Even th agencies themselves frequently do not know at presen the answers to these questions. The bill requires eac agency to publish and keep up to date descriptions of it internal and field organization, together with the gener course and method by which each type of matter directl affecting private parties is channeled and determined. Substantive regulations, statements of general policy, an interpretations by the agency of general public applicatio and legal effect shall likewise be publicly available, as we as information regarding formal and informal procedu open to private parties, including forms and instruction All releases intended for public information shall b immediately filed with the Division of the Federal Register.

It would forbid agencies to release accusations except with impartial

On the subject of press releases, the Bar Association bill takes account of a practice by some agencies of usin publicity to reflect adversely upon a person, product, activity. These permit a campaign of detraction; an since releases are official statements of a governme agency, they are widely believed. The answer rare

:atches up with the accusation, though it may be a complete refutation. The bill accordingly forbids the agencies :o issue such injurious publicity, except the full text of uthorized public documents with impartial summaries of :he positions of all parties to any controversy.

summaries of positions of all parties in controversy.

Since the agencies frequently have legislative pow- :rs, they are required, except in emergencies, to give general notice of proposed rule making, unless especially excused oy law from this requirement. This requirement applies only to substantive rules, and not to interpretations, gen- :ral statements of policy, or matters of agency organiza- :ion. The notice shall refer to the authority under which :he rule is to be drafted, with a statement of the subject ınd the issue involved. Interested parties, represented by :ounsel, shall be entitled to submit written comment, to ıttend conferences and consultations, and to present facts ınd arguments at informal hearings. In certain instances t is suggested that a formal hearing be a requisite to the ıdoption of a rule. When a rule is adopted, it is to be pub- ished with a summary of the reasons for its adoption. The agency shall also provide a procedure by which an nterested party may petition for the amendment or reces- ion of a rule and be heard on such petition.

It would require normally that notice be given of proposed substantive rules, with formal or informal hearings.

Much of the Bar Association's bill is designed to guarantee due process in the adjudication of disputes by quasi-judicial process. Adequate notice is required, not nerely a charge in general statutory language, but specifi- :ally informing the party charged about the issues of fact nd law to be considered. It is proposed on the denial of pplication for license, for example, that notice of the lenial should specify the reasons and ground for the denial nd the further administrative procedures available. With- ut this safeguard there is no protection against adminis- rative absolutism.

In adjudication of disputes by quasi-judicial process, it would provide safeguards by publication of reasons for decisions.

The Bar Association has no desire to deprive admin- strative process of the expeditious advantage of informal rocedure. To that end it advocates that the right to leclaratory rulings, already shown to be so useful under he declaratory judgment acts, should be made available n proper cases before administrative tribunals and should e subject to judicial review. Many businessmen are

And the right to declaratory rulings on policy would be granted, with such rulings subject to judicial review.

restricted in freedom of private enterprise because lawyers are unable to advise the management with certainty about the jurisdiction of a government agency. As the Bar Association's Committee states, freedom from fear of persecution is a democratic objective.

Abuse of investigative powers by "fishing expeditions" would be curbed.

Included in the Bar Association's bill is a prohibition against abuse of investigative powers by disturbing the rights of personal privacy beyond the extent required for adequate law enforcement, with protection against misuse of information wrongly obtained. This is designed to prevent burdening citizens and corporations by "fishing expeditions," and to enable them to engage in self-criticism without disclosing the results.

The Bar Association demands that authority to issue subpoenas should be granted to agencies at the request of private parties as freely as at the instance of agency representatives, and that the only disclosures regarding the expected testimony should be what may be required to determine its relevancy.

Hearings would be conducted by examiners under civil service and with the same impartiality as a good judge would use.

One of the most important Bar Association proposals is intended to correct the vice of combining investigative, prosecutive, and judging powers. The practice is to have trial examiners preside at hearings. The bill requires that these examiners shall be subject to civil service and other laws, paid adequate salaries to assure independence, and subject to removal only for cause. They should be prohibited from having interviews with or being informed by any party, indirectly or directly, about any matter in dispute, except upon opportunity of the other party to be present. They should have the same impartiality as an upright judge. From the decision of the trial examiner, the parties should have the right of appeal to the agency head. Without requiring the agency to be bound by technical rules of evidence, the principles of relevancy, materiality, and probative force, as in federal equity proceedings, should govern proof before administrative tribunals. This would tend to reduce the absurd volume of records in administrative hearings. No agency should be allowed to make a decision on matters outside the record. Whatever is the basis of decision should be subject to rebuttal and cross-examination. A final requirement

It would not insist on all technicalities of rules of evidence, but would prohibit decisions on any basis that has not been subject to rebuttal and cross-examination.

regarding the hearings is that the findings of fact and rulings of law should be set out in writing, accompanied by a statement of the reasons. Such opinions need not be lengthy. On this point the agencies may well follow the model of the comparatively brief but comprehensive opinions of the Supreme Court of the United States.

The final major requirement of the Bar Association bill is for adequate judicial review as a matter of right in all disputes before administrative agencies. This does not mean a trial *de novo* in all cases, although such is now the requirement in the case of the Court of Tax Appeals, Customs Courts, and some others. The bill does not alter such provisions. The Association recognizes that a trial *de novo* may not be necessary or practicable in all cases. It does not disturb the rule that agency findings of fact in the legal sense may often be made conclusive.

Judicial review would include power to set aside decisions if arbitrary, violating constitutional right, exceeding statutory authority, reached through improper procedure, or unsupported by substantial evidence.

The principles as to judicial review as summarized by the Bar Association's Committee include the power of the courts to set aside an administrative adjudication if it is found to be

(1) arbitrary or capricious;

(2) contrary to constitutional right, power, privilege, or immunity;

(3) in excess of statutory authority or jurisdiction;

(4) made without due observance of all procedures required by law; or

(5) unsupported by substantial evidence on an independent court's view of the whole record.

If a broader basis of review is desired in respect of some agencies, it should be so provided by amending the laws relating to the particular administrative organization.

Such a code of administrative procedure was enacted in 1946.

Finally, in 1946, Congress passed the Administrative Procedures Act, which was substantially in accord with the recommendations of the Bar Association as sketched above. Such legislation had been vigorously advocated, not only by bar associations, but also by the National Association of Manufacturers and by businessmen the country over. We may hope that the major abuses of administrative law will now be eliminated.

The tendency to deprive the citizen of his day in court and his right to review by an independent court should be arrested.

It is the duty of the citizen to inform himself on th vital subject of the extension of administrative procedure The people must understand the incipient danger to ou form of government from administrative absolutism. I is vital that we arrest this tendency to deprive the individual of his day in court and of his right to a review before courts that are independent of the executive branc of government. In the recent words of Roscoe Pound:

> There has come to be a cult of force throughout the world A give-it-up philosophy of law and government is being widely taught We are told that law is to disappear in the society of the future. We ar told of a society in which an omnicompetent and benevolent government will provide for the satisfaction of the material wants of every one and there will be no need of adjusting relations or ordering conduc by law since every one will be satisfied. Thus there will be no rights There will only be general duty of passive obedience. We need t bestir ourselves that, while we are combating regimes of this sort a they have developed in dictatorships and totalitarian governments, w do not allow a regime of autocratic bureaus to become so intrenche at home as to lead us in the same direction.

XV

TRENDS IN PUBLIC FINANCE

ART I. *TREND IN FEDERAL EXPENDITURES*[1]

The sphere of federal activities was comparatively narrow during nineteenth century.

Prior to World War I, federal expenditures in the nited States remained at a comparatively low level for a pidly growing country. Moreover, throughout the eater part of our history, the sphere of expenditures of e federal government was largely restricted to national fense, operation of the postal system, administration of dian affairs, and interest on the public debt. Our country s had a phenomenal growth not only in population, but the development of its natural resources, factories, rail- ads, and mercantile establishments. It was inevitable,

[1] For basic tables, see Appendix A, pp. 1035–1039.

Federal expenditures per capita ranged from $1.25 to $7.50, except in war periods, up to World War I.

therefore, that government costs should rise to keep pa with the growth and development of the country. In t first decade of our history, federal expenditures rang from 4 to 10 million dollars annually. By the outbreak World War I, we were spending about 700 million dolla a year. Before our entry into World War II, in the fisc year prior to the Emergency Defense Program, we spe 8.7 billion dollars. During the war we were spending abo 90 billion dollars, most of which was chargeable to th emergency.

The absolute figures, however, do not tell the fu story because they do not allow for increases in the pop lation or for increases in the price level throughout period of 150 years. If presented on a per capita basis, eve though no provision is made for price increases, feder expenditures throughout the years may be put on a som what comparable basis. Beginning with a per capi expenditure of $1.25 in the decade 1791 to 1800, feder expenditures reached $14.89 in the decade from 1861 1870, the rise being almost wholly due to the Civil Wa After the Civil War, we did not return to the per capi level which prevailed prior to that conflict. From 18 through 1916, a period of 45 years, federal expenditur per capita ranged from about $5 to $7.50. In other word we entered on a new plateau of spending following t Civil War, with a slight increase following the Spanis American War. At the peak of expenditures in Wor War I, in the fiscal year 1919, per capita expenditures ro to $177.16. After the liquidation of the war, per capi federal expenditures dropped to $26.72 in 1924. Th remained at approximately this level until the big spendi program of the 1930s got under way. For example, p capita federal expenditures rose from $30.77 in 1933 $68.19 in 1940, the last year before the Emergen Defense Program.

As will be shown later, the expenditures during t 1930s do not represent a normal trend of growth, b rather the embarking of the federal government up entirely new functions, including an elaborate program relief, public works, farm benefit payments, and feder grants-in-aid, notably for social security.

It may be observed that wars leave us with a higher vel of expenditure. This is due to the increased payments or interest on the public debt, for pensions for veterans, nd also to a general expansion of the civil functions of ne government. A brief review of the trend of such types f expenditures is of interest.

War debt and pensions were factors in increase after Civil War.

Prior to the Civil War, pension payments for vet- rans of the Revolutionary War, the War of 1812, and the lexican War were fairly modest and never greatly xceeded 3 million dollars a year. Following the Civil War, nere was a substantial increase in pensions. The peak of ivil War pensions was not reached until 1913—nearly alf a century after the war ended. Pensions increased rom 1 million dollars in 1861 to 175 million in 1913. The tter figure, however, includes some pensions for veterans f the Spanish-American War. Following World War I, nere was a great increase not only in pension payments oth for the war disabled and for those who had been in ne military service but had incurred no war disabilities. eteran payments of all kinds, including hospital care, ocational training, etc., reached a peak of 2,351 million ollars in 1936, including the payment on bonus certifi- ates. By 1940, however, veteran expenditures had ropped to 557 million dollars.

Interest on the public debt, due largely to the debt reated during the Civil War, increased from 3.2 million ollars in 1860 to 133 million in 1866. The gradual retire- ent of the Civil War debt brought a great decrease in terest payments and for a long period from 1900 to 1916 ne public debt was kept practically stationary at about 200 million dollars. Interest charges were only 22.9 mil- on dollars in 1913.

Regular military expenditures also have increased after major wars.

After each major war, there has been a substantial crease in regular Army and Navy expenditures. For xample, in 1859 expenditures for the Army and Navy ere about 38 million dollars, but had risen to 1,154 mil- on dollars in 1865. The next low point of the Army and avy expenditures was reached in 1886 when only 48.2 illion dollars was spent. Following the Spanish-American Var, annual expenditures for the Army and Navy creased largely because of a substantial increase in our

Navy. In 1899, while the Spanish-American War was st in progress, we spent 294 million dollars for the Army a Navy. This dropped to 180 million dollars in 1902, but was still far in excess of the 81 million dollars spent 1895.

Even the expenditures of the civil departments government appear to be somewhat affected by wa However, the Civil War apparently did not result in postwar increase in civil expenditures. Such expenditu increased more rapidly from 1880 to 1913 than they h from 1866 to 1880. Following World War I, gover mental expenditures, exclusive of national defense, aid f veterans, and interest on the public debt, were 690 milli dollars in 1921 and 557 million in 1925. This is abo equivalent to all expenditures of the federal governme prior to World War I. In 1930, before deliberate defic spending was started, such expenditures reached 970 m lion dollars, owing largely to slight increases in pub works.

Expenditures after World War I

Expenditures after World War I must be divid into two periods: the first beginning with the liquidati of war finance in 1921 to 1930, the last year of a balanc peacetime budget; the second period from 1931 to 194 a period of peacetime deficit financing. (The financing World Wars I and II is covered in Part VII.)

After World War I came 10 years of reduced expenditures, debt retirement, and a balanced budget (1921–1930).

The first period under review (1921 to 1930) characterized by reduced expenditures and debt retir ment. The second period (1931 to 1940) is characteriz by continuous deficits and a great expansion of the spen ing and of the functions of government.

Expenditures, exclusive of debt retirement, we 4,989 million dollars in the fiscal year 1921, including considerable amount of expenditure for liquidation of t war. For example, in that year, 2,691 million dollars w spent on national defense, even though actual hostilit ceased Nov. 11, 1918—roughly 2½ years before the cl of the fiscal year 1921. Expenditures dropped to 2,7 million dollars in 1928 and rose to 3,152 million in 193

ebt retirement, not included in the expenditures just ed, proceeded at a rapid pace in the decade from 1921 1930. Financed partly by the excess of revenues over penditures and in part by the disposal of surplus war ods and repayments on foreign debts, our national debt s decreased 9,297 million dollars from the war peak, ne 30, 1919, to June 30, 1930. In the 10-year period scal years 1921–1930) more than 8 billion dollars of ot was retired. We ended the decade with ordinary penditures of 3,152 million dollars and a public debt of ly 16,185 million dollars.

Then came 10 years (1931–1940) of great expansion of spending and continuous deficits.

In contrast, expenditures in the peacetime deficit riod from 1931 to 1940 reached a new high plateau. nnual deficits were incurred and the public debt creased by 26,782 million dollars to a total outstanding 42,967 million before the Emergency Defense Program gan (see Chart VII). Expenditures rose from 3,560 milin dollars in 1931 to 9,738 million in 1935. While penditures dropped to 6,977 million in 1938, a new licy of spending inaugurated in the spring of 1938 ought expenditures by 1940 to 8,824 million dollars.

National debt was increased from 16 to 43 billion dollars.

It must be apparent from general over-all figures at marked changes took place in the functions of the deral government, as well as new departures in fiscal licy. When the actual expenditures in the fiscal year 40 are compared with those of the first year of the pression, it is found that the increase is confined chiefly four main categories: relief, social security, farm benefit yments, and public works. The first three of these cateries—relief, social security, and farm benefit payments were new federal functions.

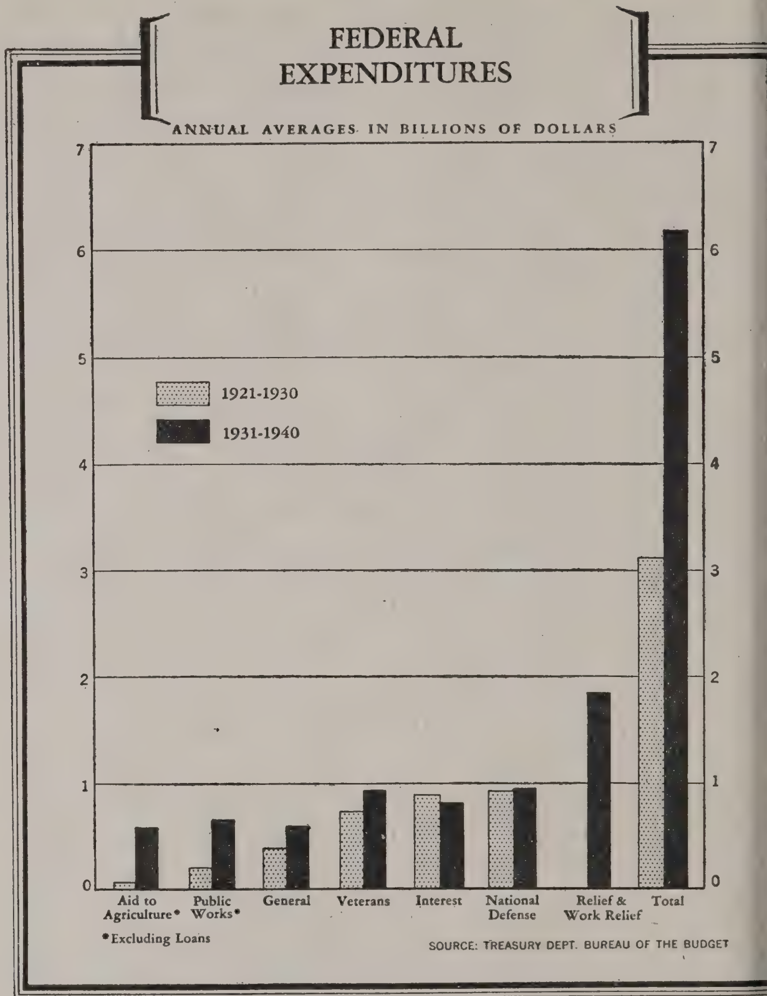
Marked changes also took place in functions of federal government.

lief

Federal unemployment relief was initiated late in 32. It has been considered a more or less temporary nction of the federal government. At the start, the deral government's role in the relief program was conned to loans and grants to states and localities to assist em in handling the terrific burden of unemployment lief. During the years from 1933 to 1940, there was a eat expansion in various forms of federal relief, and

Federal unemployment relief was undertaken in 1932 by loans and grants to states.

Chart I



prior to our entry into World War II the program ha assumed an air of permanence. As it was then set up, fec eral relief costs were in the following main categories:

Then it was expanded through WPA, CCC, NYA, and FSA.

a. The WPA provided work relief for employabl certified to be in need of relief.

b. The CCC camps provided work relief and trai ing for young men between eighteen and twenty-fi years of age recruited mostly from relief rolls.

c. The National Youth Administration provid scholarships for needy high-school and college studen and work relief for young people unable to find priva employment.

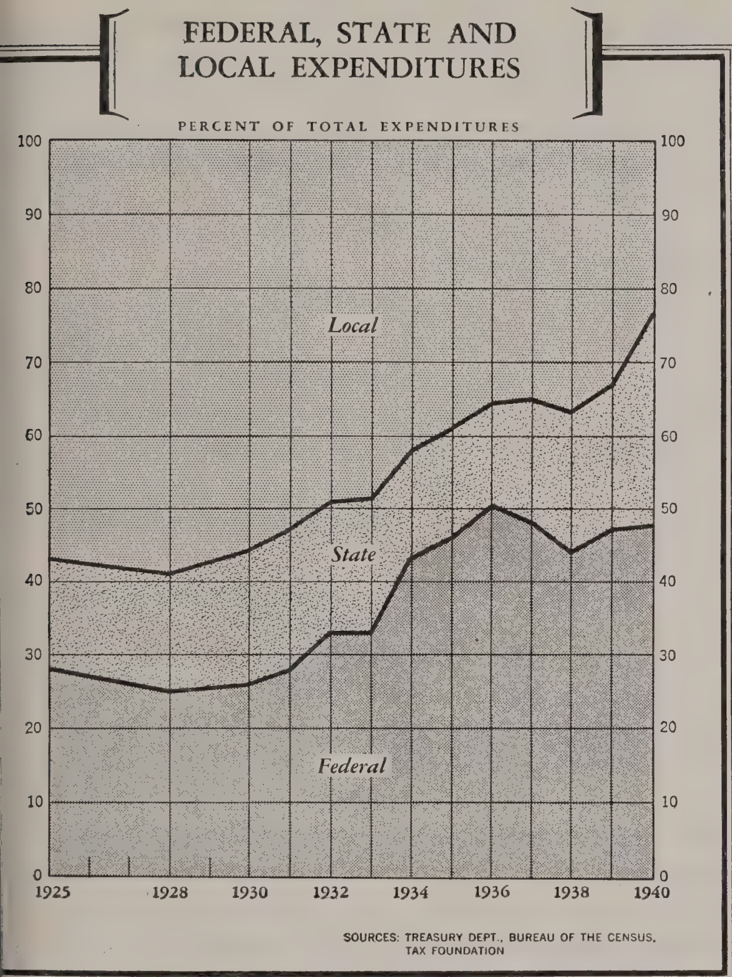


Chart II

d. The Farm Security Administration provided ns and subsistence grants for needy farmers.

During the period under consideration here, relief)enditures were largely responsible for our deficits. In 33, federal relief, including RFC loans later canceled, t only 330 million dollars, but in 1939 all forms of leral relief cost 2,944 million. In the fiscal year 1940 leral relief of all kinds amounted to 2,301 million dol- s. (See Appendix, Table A-3.)

The Social Security program, adopted in 1936, is cussed more fully in other sections. It should be noted e that this program was intended to reduce the need for

general relief and to reduce federal expenditures in thi field. Nevertheless, the facts show a continued rise in fed eral expenditures for work relief and federal grants t states for specific types of relief, as well as an increase i state and local expenditures for general relief and specia forms of relief.

Farm Benefit Payments

During the period from 1933 to 1941, the federa government furnished financial aid to agriculture in number of different forms and through a number of dif ferent agencies for the purpose of giving financial relie to distressed farmers. This aid included the expenditure relating to farm credit, agricultural adjustment, farr security, rural electrification, and other expenditures b the Department of Agriculture.

Federal aid to agriculture was largely extended in credit, in subsidies, and in other forms.

According to the report of the Secretary of th Treasury, 1941, federal aid to agriculture, through th medium of farm credit, consisted of three princip classes: direct loans, interest subsidies, and subscription t capital stock and surplus of agricultural credit corpora tions. "More important than making direct loans or grant ing interest reductions to farmers out of appropriatio made by Congress, however, has been the financial ai extended farmers by government corporations engaged i supplying farmers with credit. Among these corporatio are the Federal Land Banks, the Federal Farm Mortga Corporation, the Federal Intermediate Credit Banks, th regional agricultural credit corporations, the productio credit corporations, and the banks for cooperatives." Th expenditures shown in Appendix B-2 "reflect the opera tions of these agencies only to the extent of capital stoc and paid-in surplus provided these agencies pursuant t appropriations." A summary table of the activities of th Farm Credit Administration is presented in Appendix

The Farm Credit Administration and the Agricultural Adjustment Administration were the outstanding agencies.

According to the Treasury report quoted above, th expenditures under the agricultural adjustment progra "include not only expenditures made under the vario agricultural adjustment acts, but also under related act such as the Sugar Act of 1937, the Soil Conservation a Domestic Allotments Act of Feb. 29, 1936; and paymen

ıade to the Federal Crop Insurance Corporation and the ;ommodity Credit Corporation for capital stock or estoration of capital."

The so-called agricultural adjustment program egan with the Agricultural Adjustment Act of 1933 and ne program was supplemented by the Bankhead Cotton ıct, the Kerr-Smith Tobacco Act, and the Potato Act, all nacted in 1934 and 1935. The rentals and benefits con-racted to be paid to farmers under these acts constitute ne bulk of the expenditures of the Agricultural Adjust-nent Administration, and in the peak year, 1935, such ayments approached 712 million dollars.[1]

This total by no means covers all federal financial d given to agriculture, but includes only, and as indi-ated above, those expenditures which are directly charged) the federal budget.

eacetime Deficit Financing

The new high level of federal spending and chronic eficits was due not solely to a legitimate expansion in the ınctions of government or even to the need for some ɔrm of unemployment relief. In large measure it was due) deliberate policies of spending in excess of receipts with ne avowed purpose of attaining certain broad economic bjectives. The spending theory is discussed in detail in hap. XVIII.

After 1933 a policy of spending for broad economic objectives was pursued.

Fifteen years ago, it was almost universally believed ıat continuing deficits should be avoided at all costs. /hile it was generally believed that in a sharp business epression a temporary deficit was inevitable because of lling revenues, nevertheless fiscal policy favored reduc-g expenditures and increasing taxes as soon as possible to hieve an early balance. In the first three deficit years 931 to 1933) this policy was pursued.

Within three weeks after the passage of the Econ-ny Act of 1933, which resulted in an immediate saving nearly a billion dollars annually through reducing the y of federal employees and curtailing pensions and other nefits of veterans, the government embarked on a plan

[1] *Annual Report,* Secretary of the Treasury, 1940.

of increased spending. Chart V shows mounting defic
from 1931 to 1936, a reduction of the deficits in 1937 a
1938, and a further expansion of deficits in 1939 and 19
before war deficits began.

Conclusion

Up to the outbreak of World War I, expenditures
the federal government were maintained at a fairly l
level for a rapidly growing country. The Civil War
raise considerably the level of spending because
increased charges for interest on the debt, debt retireme
veterans' pensions, and some expansion of civil depa
ments. Nevertheless, throughout this long period, the fe
eral government confined itself largely to national defer
the postal system, Indian affairs, and interest on a fai
small public debt. Even at the outbreak of World Wa
our federal government was spending only three quart
of a billion dollars annually and had a debt of only a lit
over one billion.

The great increase in federal expenditures in the 1930s was due to experimentation with new forms of federal activity.

Following World War I, the level of expendit
was considerably higher than in the prewar years. Nev
theless, during the 1920s, expenditures were cut fr
about 5 to 3 billion dollars and the debt was reduced fr
25 to 16 billion dollars.

Throughout the 1930s and up to World War II,
federal government operated on an unbalanced bud
Expenditures increased from 3½ billion in 1931 to nea
9 billion in 1940. This increase was due not to the nor
growth of regular federal functions, but to experimen
tion with new types of activities and expenditure, incl
ing relief, large-scale public works, farm benefit p
ments, and federal grants to the states. Elsewhere,
Chap. XVIII, the underlying theories of deliberate def
spending are discussed. In a later section of this chap
the financing of World Wars I and II is considered.
should be noted here, however, that on the new h
plateau of expenditures established throughout the 19
we now superimpose additional costs growing out
World War II. With a probable postwar public debt
nearly 300 billion dollars, an annual interest charge ra
ing around 6 billion, and with provision for payme

On this high plateau of federal expenditure in peacetime are imposed the continuing costs resulting from World War II.

› millions of returning veterans, succeeding generations ıust struggle with unprecedented peacetime budgets.

No satisfactory decisions about postwar budgets can e reached until thinking has been clarified as to the force nd effect of government expenditures. Aside from the ernicious activities of pressure groups, which attempt to btain federal funds for their special benefit, too often ithout reference to the welfare of the country as a whole, ıere has been a strong tendency for politicians and layıen alike to urge or approve federal expenditures which ıay indeed be desirable, but which the country cannot fford. That is, it is not enough to make a case for the esirability of a particular federal outlay unless at the ıme time it can be shown that such outlay has more useılness to the public at large and to the individual citizens ıemselves than the income which they themselves must ›rgo and pay to the government in taxes in order to nance the proposed expenditure. When proposed approriations are required to meet this test, very few can be ›und which obtain the approval of taxpayers.

Public expenditures should be subjected to the test of utility in relation to cost to the public, and to individual citizens, in taxes.

It is no answer to suggest that public expenditures hich are essentially useful, but which cannot be financed om tax revenues, should be carried forward with bor›wed money. In this case, the test is whether the proposed xpenditure possesses sufficient utility to create directly ıs in the case of a toll bridge) or indirectly, through nproved economic conditions, the additional governıent revenue necessary to meet interest charges and tirement of the loan created for such expenditure. Even ewer proposals for public spending can meet this test.

And projects to be financed by public borrowing should be tested by direct or indirect creation of public revenue.

Basic to the theory of the American system of indidual enterprise is that government is created for the enefit and convenience of the citizen. Under this phisophy government has no independent existence but ıerely carries out the wishes and commands of the citizen. is not self-supporting but must accept that portion of ıe citizen's income which he himself voluntarily offers, / taxes imposed by his elected representatives. Thus, the tizen, through his legislative representative, has the probm of deciding what part of the national income is to be tained by the citizen himself to save and invest for the

The people should choose what government services they will purchase and pay for.

protection of his future and for the expansion of his ec nomic opportunity and how much shall be diverted f purchasing government services in the form of intern and external defense, administration of justice, and oth appropriate functions of government.

But the functions of government which are appr priate must always be determined by the citizen himse rather than by government officials, and the proportion private income which the citizen delegates for pub expenditure must also be a matter of his voluntary jud ment and not of coercion by government. Otherwise, ec nomic and political liberty do not exist.

Experience has shown that emergency expenditures come to be regarded as normal, that pressure groups continue to demand greater outlays, and that an undue tax burden discourages thrift, investment, and risk taking.

These principles in regard to the appropriate fun tions of government, and in regard to free modes expression for the citizen in determining what portion his income he wishes to spend directly on consumpti goods, or to save, and what proportion he wishes devote to purchasing the services of government officia must be kept clearly in mind if satisfactory conclusio are to be reached in formulating postwar budgets.

Whatever may be the temporary benefits of gover ment spending and however appealing may be t demands for new and greater expenditures in the postw period, our country must face these realities:

1. Experience has demonstrated that emergen expenditures eventually come to be regarded as norm

2. As a result of large-scale spending, pressu groups are encouraged to demand even greater outlays ar entirely new types of expenditures.

3. We need in the postwar years a tax system whi will not discourage thrift, investment, and risk takin Regardless of the skill with which such a tax program drawn, it will fail to achieve this purpose if expenditur are maintained at a level which will require an undue bu den of taxes in relation to our productive resources ar abilities.

PART II. FEDERAL REVENUES[1]

Before the Civil War, and for many years thereafte expenditures of the federal government were modera

[1] For basic tables, see Appendix B, pp. 1040–1046.

a country growing as rapidly as the United States. Up the advent of World War I, with the exception of the vil War period, the problem of finding adequate sources federal revenues was comparatively simple and the es collected were fairly easily borne.

Before the Civil War federal expenditures were small, and most of the time no internal revenue taxes were levied.

From the founding of the country up to the year 53, internal revenue collections were of negligible portance, and in some years they did not exist at all. th the exception of the decade of the 1790s, during ich the government experimented with an excise tax on isky with unfortunate results, there were no important ernal revenue collections until 1814 when the governnt was financing the War of 1812. The government s supported throughout the pre-Civil War period nost entirely by customs collections and miscellaneous eipts. The latter included the sale of public lands. In early years of the Republic, this was a considerable rce of revenue. For example, in 1836 miscellaneous eipts, largely from the sale of public lands, were 27.4 llion dollars. Such receipts, however, fell off to only million in 1862.

The Civil War brought income and excise taxes.

The financing of the Civil War presented the most ious financial problem the country had encountered ce its founding. The government was unable to finance war entirely by taxes and had to resort to bond issues l greenbacks. It was during this period that we had our t experiment with an income tax, and there was also expansion of excise and other taxes. For example, no ernal revenue was reported in 1862, but in 1866 309.2 llion dollars was collected from this source. A number special taxes were enacted during the Civil War period, luding excise taxes, a direct tax which was apportioned ong the states, a gross receipts tax, sales tax, inheritance , license taxes, possessions taxes, and an income tax. e Civil War income tax proved to be an important rce of revenue. During the last year of the Civil War, ielded more than 60 million dollars or more than 29 per t of the total internal revenue of the country for that r. Although the excises on liquor and tobacco were ained after the Civil War, most of the other emergency es, with the income tax, had been abandoned by 1872.

The excises on liquor and tobacco were retained after the Civil War.

These and customs taxes were the chief sources of revenue 1873–1914.

From 1873 through the first decade of the twentiet century, the sources of federal revenue remained, on tl whole, unchanged. Just prior to the adoption of the fec eral income-tax amendment in 1913, the federal goverr ment's chief sources of revenue were customs and exci taxes on liquor and tobacco.

The taxes imposed for financing World War I an World War II are discussed in a later section. A brie review here of the trend in peacetime taxes since 1913 in order. This will be followed by a brief description our experience with federal income taxes.

Federal Taxes, 1914 *to* 1940

Before World War I corporate and individual income taxes supplied only about 17 per cent of federal revenue.

A detailed tabulation of federal sources of reven in this period is given in Appendix B-1. In the fiscal ye 1916, the last before our entry into World War I, 7 million dollars was collected in customs and taxes. Co porate and individual income taxes supplied only 17.1 p cent of the total, liquor and tobacco excises 45.9 per cer and customs 29.2 per cent. The balance—7.8 per cent represented miscellaneous taxes and receipts.

The war increased income and excise taxes.

In the war years, there was a great increase in nc mal individual and corporate taxes, imposition of hea excess-profit taxes, and a great increase in excise tax The full impact of these new taxes was not felt until t fiscal year 1920. Of the 5,735 million dollars collected the federal government in 1920, 4,050 million dollars v collected in individual and corporate income taxes of kinds, including the capital stock tax, or 70.6 per cent f revenues. Excise taxes, in spite of the reduction because f the prohibition law of 1918, totaled 704 million doll or 12.3 per cent of the total. Customs collections were 3 million or 5.6 per cent. The balance—11.5 per cent— collected from estate taxes and miscellaneous or so-cal "nuisance" taxes.

To take another peacetime year as an example, 19 the revenue structure was as follows: Collections tota 3,549 million dollars. Of this 2,338 million came fr individual and corporate income taxes (including a sn capital stock tax) or 65.9 per cent of the total. Prohibiti

ow in full operation, greatly reduced excise taxes to 453 illion dollars, but still 12.8 per cent of the total. With large foreign trade, customs collections were 602 million ollars or 17.0 per cent of the total.

In 1940 the revenue structure was as follows: out 5,703 million dollars collected, which almost reached e previous peacetime peak, individual and corporate come taxes and the capital stock tax totaled 2,254 milon dollars or 39.5 per cent of the total. Pay-roll taxes were 3 million dollars or 15.5 per cent, estate and gift taxes 0 million dollars or 6.3 per cent, and excise taxes 1,679 illion dollars—the highest record—or 29.4 per cent of e total. Customs collections were 350 million dollars or 1 per cent.

Analysis of these figures of revenues between the two ars indicates the following major trends:

Between the two World Wars, income taxes furnished most of the internal revenue, but pay-roll taxes had appeared and excise taxes had increased.

a. Individual and corporation income taxes furshed by far the greater part of internal revenue.

b. Nevertheless, other forms of taxes, such as payll taxes dedicated to special forms of social security, had peared, and excise taxes had been expanded.

c. While prior to 1940 income tax exemptions for dividuals had been greater than those of World War I, is relief for low-income groups was offset by excise and y-roll taxes of broad incidence.

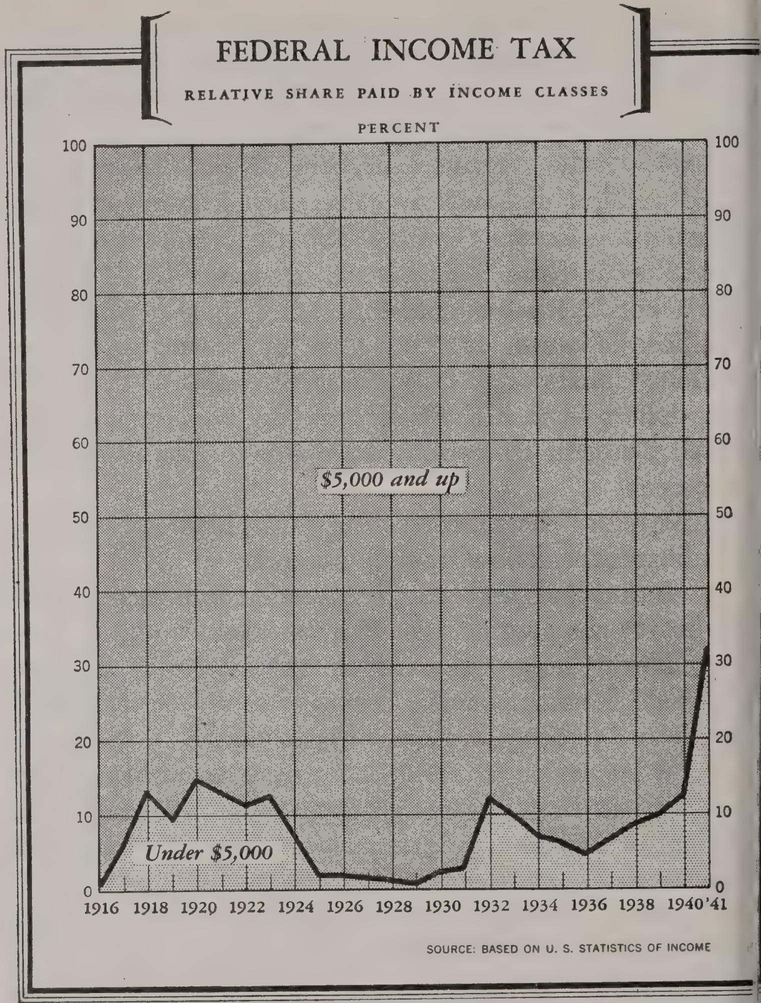
ckground of Federal Income Taxes

Because of the importance which the various types income taxes play in our federal fiscal policies, a brief view of this field of taxation is in order.

The first federal income tax was enacted in 1862 a war measure. It was amended in 1863 and rewritten 1864 and 1865. The tax applied only to personal comes, though some collections were made at the source rough corporations. War income tax yielded 61 million llars in 1865 or 29.1 per cent of the internal revenue that year. The tax came to an end in 1872, owing to popularity growing largely out of frauds and weakness administration.

Again in 1894, a federal income tax was enacted, rgely in response to unrest due to the panic of 1893 which

Chart III



greatly reduced customs as a source of revenue. This was short-lived because the U.S. Supreme Court, rev ing an earlier decision, held it unconstitutional. In f revenue from the 1894 act was collected only in the fi year 1895 when $77,000 was collected. Later in 1909, C gress passed a law providing for a corporate income of 1 per cent of income in excess of $5,000, and, to sat the Supreme Court, this was called an "excise" tax.

The federal income tax, used in 1862–1872, was re-established in 1913.

Popular interest in the income tax increased to point that in 1913 the states ratified the Sixteenth Ame ment to the Constitution authorizing a federal income This amendment is as follows:

The Congress shall have power to lay and collect taxes on comes from whatever source derived, without apportionment among e several states, and without regard to any census or enumeration.

The main changes in the federal income tax, as it fects both corporate and personal incomes, cannot be lequately covered in this brief summary. A few high ghts, however, ignoring technical points, will illustrate e main trends. Changes in income-tax laws in war periods e covered in Part VII on War Financing. Comments ere are largely confined to peacetime developments of ır federal income tax.

ates on Individual Incomes

The incidence of the tax is largely determined by e personal exemptions, the credit for dependents, and the rtax rates. When the act was first passed in October 1913, arried men with incomes under $4,000 and single men ith incomes under $3,000 were exempt. Such high exemp- ons excluded the great bulk of the population from come-tax payments and in 1913 only 358,000 returns ere filed. In the years 1917 to 1920, when the government dly needed revenue for the war, the exemption for arried men was $2,000 and for single men $1,000. In 17, 3,473,000 returns were filed, of which 2,707,000 ere taxable; and in 1920, 7,260,000 were filed, of which 518,000 were taxable. For the years 1925–1927, exemp- ons were raised to $3,500 for married men and $1,500 r single men. In 1927, only 4,101,000 returns were filed, which 2,441,000 were taxable. For the years 1939 and 40, exemptions were dropped to $2,000 for married en and $800 for single men. In 1940, 14,665,000 returns ere filed, of which 7,505,000 were taxable. The wartime emptions, under the Victory and withholding income xes, were placed so low that about 50 million individuals id an income tax.

The incidence of the personal income tax is largely determined by personal exemptions, credit for dependents, and surtax rates, which have undergone many changes.

Income-tax collections are affected not only by emptions and credits, but by the rates fixed for vari- is brackets of income. The accompanying table gives e normal and surtax rates applying to four specific ears between 1918 and 1940.

Rates are compared in four specific prewar years.

RATES ON PERSONAL INCOMES, 1918, 1924, 1929, 1940

	1918	1924	1929	1940
Normal rates	4–8%	2–6%	2–4%	4%
Surtax income to which rates apply	$5,000 and over	$10,000 and over	$10,000 and over	$4,000 and over
Surtax rates	1–65%	1–40%	1–20%	1–74%
Exemptions:				
Married	$2,000	$2,500	$3,500	$2,000
Single	$1,000	$1,000	$1,500	$ 800

The tax was kept progressive through the many changes.

Taking exemptions and surtax rates together, it clear that in World War I the tax was highly progressiv exacting disproportionately high taxes on the highe income groups; but, because of comparatively low exemp tions, the war tax was on a fairly broad base. The tax wa still highly progressive in 1925 with respect to surta rates, but the exemptions were slightly higher than i World War II. The change made in the 1926 act affec ing incomes for the years 1928 to 1931 greatly reduce the surtax rates and increased the exemptions. The redu tion in the surtax rate had the effect of making the a less progressive, but the raising of exemptions had th opposite effect. Even before our entry into World Wa II, the income tax had been made highly progressive shown by the maximum surtax rate of 74 per cent. On th other hand, the lowering of exemptions brought in a lar number of new income taxpayers.

The effect of our income-tax law prior to 1941 ha been to collect the far greatest proportion of the reven from persons with incomes of $5,000 a year or more. Th is shown in Chart III. In 1916 practically no tax was pa out of incomes under $5,000 but, in 1920, 15.4 per ce of the income tax was paid by those under $5,000. In 192 the higher exemption excluded most incomes under $5,0 for in that year only 0.4 per cent of the tax was paid b those with incomes under $5,000. In 1940, 12.6 per ce of the income tax was collected from incomes under $5,0 (see Appendix B-3).

A few comparisons at the other end of the scale in cate still further the degree of progression of the inco

x at various times. For example, in 1918, 54.8 per cent the income tax was collected from those with incomes ver $50,000 a year, who represented only 0.33 per cent those making a return. In 1929, 81.2 per cent of the come tax was paid by those with incomes over $50,000, ough they represented only 0.94 per cent of the tax-ayers. In 1940, those with incomes over $50,000, who presented 0.1 per cent of income taxpayers, paid 44.4 er cent of the tax. The reduced percentage illustrates the fect of lowered exemptions from both normal and sur-x. Moreover, the revenue received from higher brackets income is dependent on the amount of such income ailable. More people are in the higher brackets of income prosperous years and fewer in the depression years. In her words, rates alone do not determine the yield of the x; the yield is determined by rates, business conditions, d exemptions.

Rates on higher incomes tended to rise, but also base was broadened in 1932 and further in 1940. In 1942 32 per cent of the tax was paid on incomes under $5,000.

ates on Corporate Incomes

The tax on corporate income, again leaving out of count the excess-profits tax in war years, has undergone nsiderable change. The effect of the corporate income x cannot be measured apart from the individual income x. For in the United States, in recent years, the corpora-on has been considered not merely a device for collecting rsonal income at the source, but as an object of taxation and of itself. The taxing of corporate income in con-nction with the tax on individual income derived from rporations is a form of double taxation.

The normal tax on corporate income before World War II ranged from 10 to 19 per cent.

Only the major changes in the corporate tax can be tlined here. Until the advent of World War II, the nor-al tax on corporations varied from 10 to 19 per cent. certain years the tax was graduated; in others it was flat rate applying to all regardless of amount of income. fter the repeal of the excess-profits tax of World War I, me slight excise taxes were kept as well as the tax on capi-l stock. An almost revolutionary change was made in the t of 1936 which provided a graduated penalty tax on ndistributed income." The purpose of the tax was to rce companies to pay out in dividends a large part

Double taxation was set up in 1936 when dividends were made subject to normal tax.

of so-called "surplus" which many naïvely believed w cash. The act also provided that dividends should be sub ject to the normal tax. Prior to that act dividends wer not subject to a normal tax because such income was he to be taxed at the source through the tax on corpora income. The tax on undistributed income was repeal because of its adverse effect on many businesses, especial small ones. But the double taxation on corporate incom first through the corporate tax and then by the individu tax, was retained and is still in effect.

A recent study[1] points out the deterrent effect combined corporate and income taxes as in effect in 193 Here we have the effect in 1939 of extremely progressi rates on individual income, plus the heavy taxes impos on corporate income before dividends. A few exampl from the Brookings study will illustrate the problem.

For example, a person entitled to $2,000 of corpora income before tax and with $3,000 of other kinds income suffers a combined tax of $397 or 19.9 per ce of all income. At the other extreme, a person entitl to $1,997,000 of corporate income before taxes and wi $3,000 of other income suffers a combined tax of $1,52 841 or 76.4 per cent of all income. Obviously such a t deters individuals from risking their money in investmen

Combined corporate and personal income taxes discouraged investment in enterprise, especially by investors in upper income brackets.

This is illustrated further by calculating the gr return on the equity which must be earned by a corpor tion in order to yield a specific net return to the invest In the example cited above, for the top personal incor bracket in 1939, in order to provide the investor with specific return of 5 per cent on his equity, the corpor tion would have to earn before taxes 21.19 per cent that equity. In other words, corporate and personal ta combined would take 76.4 per cent of the 21.19 per ce return, leaving the individual investor only 5 per ce return.

Obviously, if the highly progressive 1944 rates personal incomes, plus a corporation normal tax of 40 p cent and an excess tax of 95 per cent on excess prof in wartime, were retained in the postwar period, the eff

[1] Lewis H. Kimmel, *Postwar Tax Policy and Business Expansion,* Brook Institution, 1943.

ould be far worse than that resulting from 1939 taxes. he excess-profits tax, however, has been removed.

apital Gains and Losses

Under the 1913 income-tax law, procedure was mple. The taxpayer set down his items of recurring come (salary, interest, etc.) and whatever casual income had received, for example from sale of property. He ien deducted, among other things, his losses whether curred via regular business or casual sales. If deductions ceeded gross income, he paid no income tax.

As the law went through successive amendments, ore particular attention was given to various types of sses and to the treatment of them in determining net come. And with respect to capital net losses, the prin- ple was followed of allowing the taxpayer to deduct em, in one way or another, from ordinary income.

Capital gains and losses have been treated variously in income tax laws.

Because of this, the yield of the income tax was versely affected, especially in 1930–1933, and in 1934 ongress drastically revised the applicable law. Under the '34 act the amount of capital net loss which any tax- yer could deduct from ordinary income was limited to ,000.[1] The amount of taxable capital gains was deter- ined on the basis of specified percentages which varied ith the length of time the capital asset had been held fore sale. If, for example, the asset had been held 1 year less, 100 per cent of it was taxable; if it had been held ore than 1 year but less than 2 years 80 per cent of it was xable; and so forth.[2] The amounts obtained from appli- tion of the appropriate percentages were included in t income and taxed at regular normal and surtax rates.

With respect to individuals the 1938 act returned, irt of the way at least, to the liberal treatment given pital net losses prior to the passage of the 1934 act. The '38 act retained the distinction between long- and short- rm capital gains (but changed their definition)[3] and

[1] Or the actual loss, whichever was smaller.

[2] Over 2 years and not over 5 years, 60 per cent; 5 years and not over years, 40 per cent; 10 years, 30 per cent.

[3] Gains on capital assets held 18 months or less, 100 per cent taxable; 18 to months, 66 2/3 per cent taxable; 2 years or more, 50 per cent taxable.

stipulated that long-term capital losses could be deducte from any income, either ordinary or capital gains. Loss on assets held 18 months or less (short-term) were mac deductible only from short-term gains, although if neces sary they might be "carried over" one year.

A distinction is made between short-term and long-term gains and losses, long-term gains being only partly taxable as personal income but fully as corporate income, though at a lower rate.

A 1942 amendment took once again the strict atti tude toward capital net losses. The amendment provide for only two classes of individual capital gains an losses: (1) short-term, on assets held 6 months or les (2) long-term, on assets held more than 6 months. Or hundred per cent of short-term and 50 per cent of long term gains are taxable. Capital losses may, of course, b deducted from total capital gains. A net capital lo (on either short- or long-term assets) is deductible fro ordinary income only to the extent of $1,000 in any o year; but any actual capital net loss in excess of this amou may be carried over to the following 5 years and applie either against capital gains or, up to $1,000 in any o year, against ordinary income. The alternative tax pr vided in 1938 was continued with respect to net long term capital gains and the rate raised from 30 to 50 p cent.

Under the 1942 amendment corporations were n permitted to distinguish between long- and short-ter capital gains or losses, but were required in all cases capital gain or loss to take into account the full amour And corporations may deduct capital losses only fro capital gains. The tax rate on corporate capital gai however, is 25 per cent as compared with the individu rate of 50 per cent.

Estate Taxes[1]

Death taxes were first used in the U. S. during the Civil War. In 1916 they were revised

Death taxes, as distinguished from stamp taxes probates and letters of administration, were first used the United States as part of the attempt to meet the Ci War fiscal emergency. The Civil War death taxes were two sorts: (1) a tax on the beneficiary's share of perso property and (2) a tax on succession to real estate. T

[1] See H. L. Lutz, *Public Finance,* 1936, pp. 665–673, and H. M. Gr *Financing Government,* 1939, pp. 242–243, 262–268.

panish War tax on inheritances (repealed in 1902) was vied only on bequests of personal property.

on very large estates. Subsequently they were imposed on smaller but substantial estates, and rates were increased.

The present phase of federal death taxation began in 916 when graduated rates to a maximum of 10 per cent ere imposed on that part of the net estate over 5 million ollars. The acts of 1917 and 1918 raised the rate schedule a maximum of 25 per cent on that part of the net estate ver 10 million dollars. Since then, as indicated by the ble below, estate-tax rates have on the whole shown a arp upward trend. For example, under the 1926 law, e tax on a net estate of $100,000 was $1,500; under e laws of 1932, 1934, 1935, and 1941 the taxes on a et estate of $100,000 were, respectively $5,000, $5,600, ,600, and $20,700. These rates have been raised, in part help defray increasing federal expenses but in part also bring about a redistribution of wealth.

Credits are allowed for state inheritance taxes paid.

The 1924 act allowed state inheritance taxes to be educted from the federal tax—up to an amount equal to 5 per cent of the federal tax. The act of 1926 raised is credit to 80 per cent of the federal tax. Between 1926 nd 1932 no change was made in the estate tax; in the tter year, however, an additional tax was imposed against hich no credit was allowed. The taxes indicated above n a net estate of $100,000 are before credit for state tate taxes and do not therefore reflect the actual yield the federal treasury on such an estate. The accompanyng table summarizes the yield to the federal treasury of the state tax for selected years 1917–1946.

Federal Estate-Tax Yields, 1917-1946
(In millions of dollars)

1917	6.1	1935	140.4	1944	473.5
1920	103.6	1940	330.9	1945	596.1
1925	101.4	1942	340.3	1946	608.0
1930	64.8	1943	414.5	(est.)	

Heavy death taxes check growth of capital supply, and discourage accumulation of capital funds.

The payment of death taxes usually requires at least ome liquidation of capital, and they are therefore, in a ense, capital levies. Some persons have taken this fact to ean that estate taxes decrease the existing stock of capital. s Lutz points out, however, the estate tax can have no ffect on the existing stock of real capital goods—machines,

ships, factories, etc. (although if the government us estate-tax revenue for current purposes rather than fo debt retirement the funds available for private investmer may be decreased[1]). But, as Lutz further points out, "pro longed, heavy death taxes will no doubt check the growt of the capital supply from its present sources." That i "the stock of capital goods at any one time is not perma nent wealth. It is being constantly used up and as constantl replaced. Further, the total stock must be added to if the is to be greater aggregate production and a higher standar of living for all. The effect on the existing stock of capit goods is not the significant test of the ultimate influence o such a tax. Rather, it is the effect of the tax on the mair tenance and increase of the stock that must be considered.' And heavy estate taxes may impair the wish to accumula such funds as are necessary to finance the production o real capital—of factories, machines, etc.

Gift Taxes

Gift taxes were imposed to prevent avoidance of death taxes.

After the estate tax was imposed many individua reduced their tax liability under it by giving away som or all of their property before death. In general, tw methods have been used to deal with these so-called "tran fers among the living." First, the federal estate-tax la provides that transfers made less than two years before tl death of the transferor are considered to be transfers contemplation of death (unless shown to the contrary and are taxable at estate-tax rates. Second, those transfe among the living which do not come within the scope the above provision are, for the most part, subjected gift taxation.

A federal gift tax was enacted in 1924 and repeal in 1926. The tax was to be computed annually on t total net gifts made during the year in excess of $50,00 The rates rose from 1 per cent on the first $50,000 to per cent of the amount over 10 million dollars. The co stitutionality of this act was upheld by the Supreme Cou in 1929. When the death tax rates were raised in 1932, t

[1] See J. C. Gebhart, *Must There Be Another Deficit?*, National Econo League, 1940, p. 16.

[2] Lutz, *op. cit.*, p. 704.

ft tax was restored and in 1934, 1935, and 1940 the rates ere sharply increased. The tax applies to all transfers in ust or otherwise, whether the gift is direct or indirect id whether the property is real or personal, tangible or tangible. Rates range from 1½ on the first $10,000 over ie $40,000 specific exemption to 52½ per cent on that irt of the gift in excess of 50 million dollars. The gift x yielded 7.5 million in 1925, 3.2 million in 1926, 4.6 illion in 1933, 160.1 million in 1936, and 33 million ollars in 1943. In 1944–1946 the yields were 37.7, 46.9, id 56.8 million dollars, respectively.

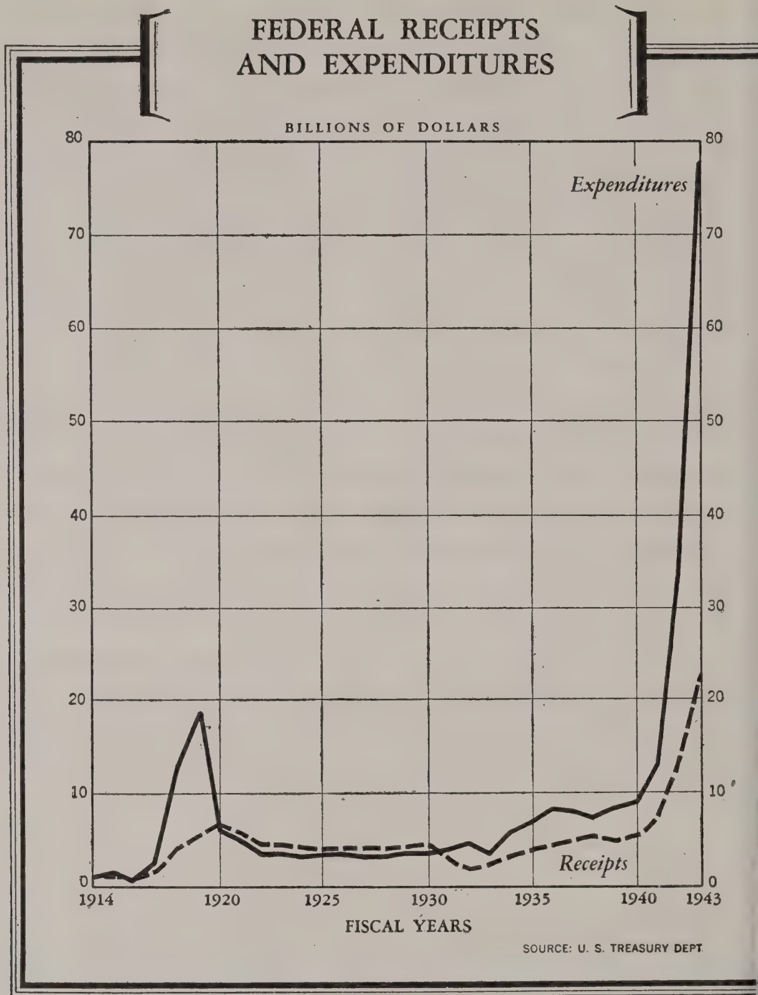
Life-insurance benefits and annuities have also been made taxable above certain limits.

In order to prevent other forms of avoidance of the come and inheritance taxes, life-insurance benefits and nnuities have both been made taxable—each to a limited tent. After an initial exemption of $40,000, life-insurce benefits are considered bequests and are taxed at gular rates under the estate tax. To the extent that they not exceed 3 per cent of aggregate premiums paid, nnuities are taxed as income. That part of the annuity hich exceeds 3 per cent of aggregate premiums may be educted from gross income. The deduction may be made nnually until such time as the sum of the annual deducons is equal to aggregate premiums paid.

onclusion

The long record of federal taxation reveals that nroughout our entire history up to World War I, except the Civil War period, the federal government relied ainly on excise taxes (chiefly liquor and tobacco) and ustoms duties for the chief sources of revenue. As long as ie federal government was spending less than a billion ollars a year, as it was prior to the outbreak of World Var I, these sources yielded sufficient revenue to balance ie budget and imposed no great hardship on our economy. Iounting expenditures, beginning with World War I, orced the federal government to find new sources of evenue and to tap old sources more heavily. The need for ew revenue was met by taxes on individual incomes and orporations and by new types of excise taxes and increased ates on old ones. Up to the outbreak of World War II, the

Chart IV



income tax on individuals and corporations had beco
the mainstay of federal revenue, while at the same ti
excise, estate and gift, and pay-roll taxes contribu
importantly to the federal revenue.

By 1940 about 40 per cent of federal revenue was derived from personal and corporate income taxes.

In 1940, approximately 40 per cent of all fede
revenue came from taxes on individual incomes and c
porations. Although the high rates and low exempti
of the individual income tax and the unprecedented h
taxes on corporations imposed during World War II
emergency measures may be greatly eased in the postw
period, a return to the corporate and individual rates wh
were in effect in 1940 would still penalize incentive

TABLE 1.—RATES AND EXEMPTION UNDER THE FEDERAL ESTATE TAX

Effective dates	Minimum rate, per cent	Maximum rate, per cent	Specific exemption
September 1916	1 ($5,000–$50,000)	10 (over $5,000,000)	$50,000
March 1917	1½ ($5,000–$50,000)	15 (over $5,000,000)	$50,000
October 1917	2 ($5,000–$50,000)	25 (over $10,000,000)	$50,000
February 1919	1 ($5,000–$50,000)	25 (over $10,000,000)	$50,000
February 1926	1 ($5,000–$50,000)	20 (over $10,000,000)	$100,000[1] 50,000[2]
June 1932	1 ($5,000–$10,000)	45 (over $20,000,000)	$100,000[1] 50,000[2]
May 1934	1 ($5,000–$10,000)	60 (over $10,000,000)	$100,000[1] 50,000[2]
August 1935	2 ($5,000–$10,000)	70 (over $50,000,000)	$100,000[1] 40,000[2]
September 1941	3 (0–$5,000)	77 (over $50,000,000)	$100,000[1] 40,000[2]

Exemption before computation of so-called "basic" tax.
Exemption before computation of so-called "tentative" tax.
SOURCE: *Statistics of Income*, 1940, Part I, pp. 252–255.

king. The main features of the recent trend in the come-tax system, omitting from consideration the temorary war taxes, may be summarized as follows:

The high degree of progression in federal income tax discourages individual incentive and risk-taking.

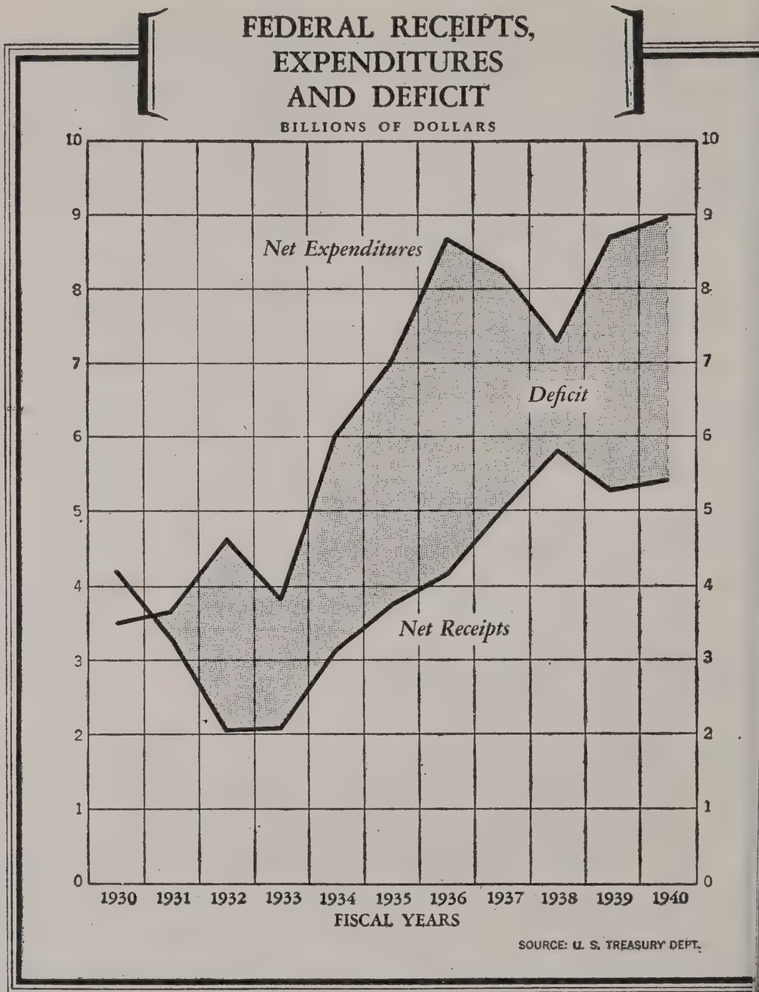
The federal income tax is characterized by a high egree of progression; *i.e.*, the rates increase sharply as come increases. In 1940, 44 per cent of the taxes colcted on individual incomes were paid by persons with comes over $50,000, representing about 1/10 of 1 per ent of all income returns. In 1940, the maximum surtax ate on individual incomes was 74 per cent. This degree of rogression penalizes risk taking and discourages individal incentive. If a given venture is successful, a large share f the profits is taken in taxes; but, if the venture results a loss, there is no reimbursement from the Treasury.

Ultimately this policy will impose heavier burdens on low-income groups.

In commenting on progression in income-tax rates, ng before they had reached present rates, Prof. Murray Iaig said:[1] "The popularity of progressive taxation in ecent years is doubtless traceable in no small part to the pportunity it offers in a democratic state to place added

[1] *Encyclopedia of Social Sciences.*

Chart V



burdens upon the group which, while economically stron, is often politically weak." If highly progressive rates a intended, as many believe, to bring about a redistributi of wealth and income, those who advocate such a poli are doomed to disillusionment. The money taken fro high-income groups by taxation is, of course, not d- tributed directly to low-income groups. It is spent by t government for a variety of purposes which may or m not benefit low-income groups. One certain econor effect of the continuance of highly progressive tax ra, on both incomes and estates, which are really confiscat in their effect, will be to reduce the future tax base. U-

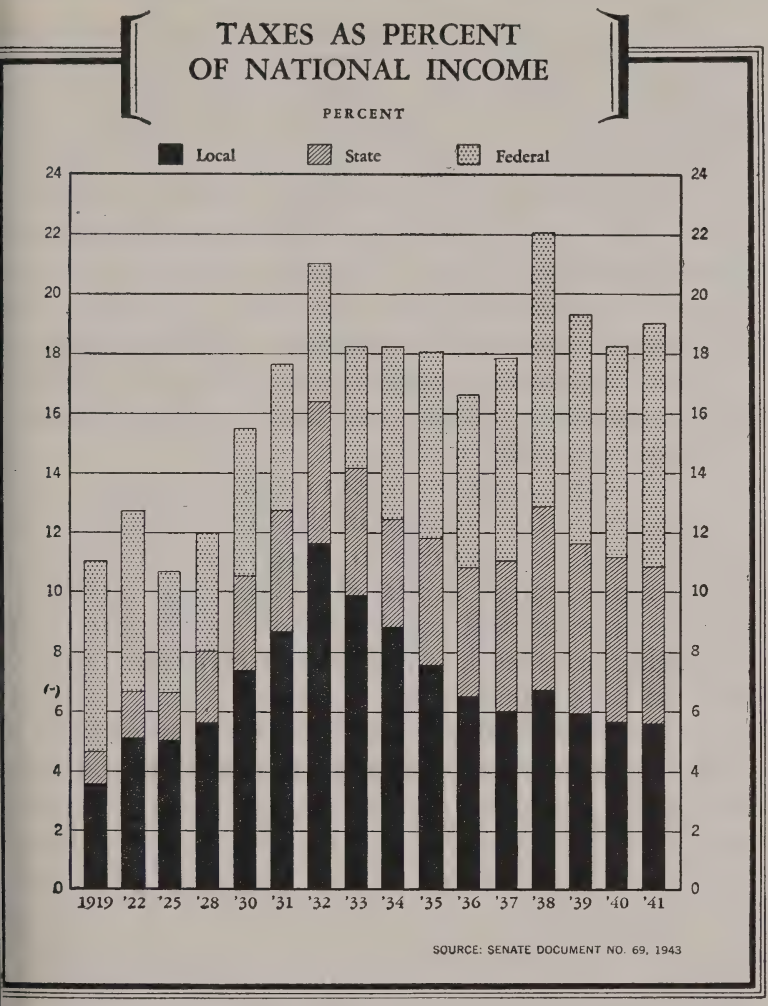


Chart VI

ately, therefore, the low-income groups, if there is no reat curtailment in federal spending, will in future have bear a larger share of the burden of supporting the overnment than they do now, and that burden may well ecome intolerable and destructive. Another economic ffect is that it puts an obstacle in the way of technological nprovements and provision of new facilities.

The taxing of capital gains is a distinctive feature of ur income-tax laws. Few other countries tax capital gains s income. This policy is open to the following serious bjections:[1]

[1] Based on discussion of H. L. Lutz, *Public Finance*, pp. 481, 482.

Capital-gains tax causes great variability in revenue, does not take into account variations in value of dollar, and deters desirable shifts in investment.

The treatment of capital gains as income and the allowance of capital losses as deductions have caused great variability in the revenues. This was particularly noticeable in the years 1928 through 1933. In 1928 and 1929, largely because of profits in the stock market, so-called "capital" gains yielded a considerable portion of the total income-tax revenue. With the fall in security prices, the yield of the income tax was reduced, because of both reductions of capital gains and offsets by capital losses. The capital gain-and-loss provisions of the income-tax law were largely responsible for the decrease in the yield of the individual income tax from 1 billion dollars in 1928 to 246 million in 1931.

The capital gains are often merely the result of price changes due to the variation in the value of the monetary unit. Capital increases due to increases in the price level do not represent real capital gains because if the investor sells his assets it will require all of his cheaper dollars, at a higher price level, to make a new investment that will conserve his original capital.

Normal business transactions are prevented by the capital gains tax. Its deterrent effect on shifting of investments often prevents the transfer of the capital assets to others who would be able to manage them more skillfully.

At the present time (1946) the capital-gains provisions of the income-tax law have been greatly eased and some of their worst features removed. It would be safer, however, to remove entirely from our tax system this illogical and dangerous procedure.

Double taxation of corporate income is imposed.

Another feature of our income tax which is objectionable is the treatment of the corporation as an object of taxation in and of itself, and not merely as a device for collecting personal incomes at the source, as in Great Britain. Under the present law an effort is made to tax corporate income twice: (1) through income tax on corporate income and (2) in the individual income tax on dividend income received by individuals. Before 1936, dividends were not subject to the normal individual income tax. In other words, the corporation was, to a considerable extent, treated as a means of taxing income at the source, much as is done in Great Britain. The principle of progres-

ion had been applied to corporate income even before the xcess profits in wartime.

Some object to the removal of taxes on business, as uch, or the exemption of business from special taxes, ecause they believe that through the failure of business irms to declare their earnings as dividends to individuals t would be possible for certain persons who own a large art of the stock to accumulate a large volume of wealth ree of taxation. This argument is fallacious insofar as the et long-run effect of such accumulation upon society is oncerned. This is because such accumulations ultimately nust come out as either personal income or inheritance. Meanwhile, the plowing back of earnings increases employ-nent, enlarges the volume of production, tends in many ases to lower prices, and hence, as long as free competi-ion is maintained, works to the benefit of the public at arge. A tax on business as such is thus, in the final analysis, othing but a tax on enterprise. Such a tax prevents the lowing back of earnings which, if effectively employed, rovides for expansion. This means that it is a direct deter-ent to the creation of employment and the increased pro-luction of commodities essential for the improved well-eing of our people. Ample evidence of this is provided n the records of recent years. As a result of the present ystem of taxes, many concerns have been driven out of usiness, the future of many others has been threatened, nd many that otherwise would have been organized have never come into being.

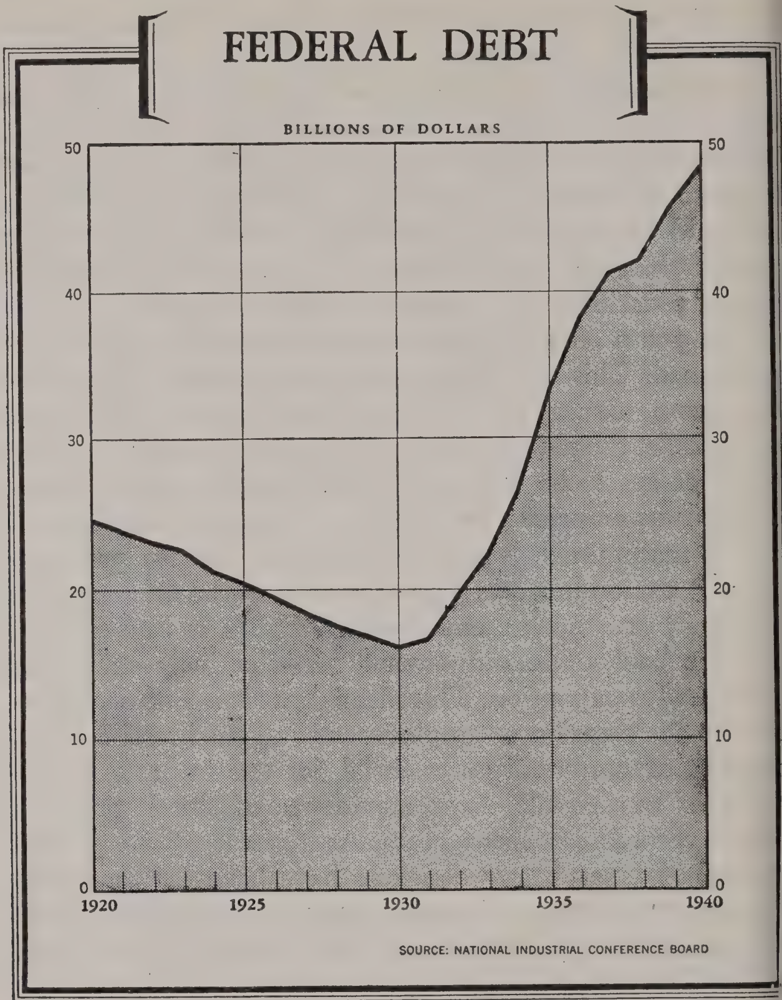
The taxation of corporations as such, instead of as a means of reaching personal income at its source, deters creation of employment and production of goods essential to well-being of the people.

The federal estate tax is not a major source of rev-enue. Even in 1946, it yielded only 600 million dollars in evenue. The credit allowed for payment of state inherit-nce taxes (80 per cent of the 1926 federal rates) tends o keep the federal yield fairly low. Nevertheless, the com-ined effect of both state and federal rates is taking over 0 per cent of estates in the upper brackets.

Confiscatory taxes on estates tend to discourage and revent a man from providing security for his heirs. But he capital levy feature of combined federal and state axes on estates and inheritances is open to the serious bjection of destroying a productive tax base. The con-iscation of large fortunes will eventually lead to a broad-

Confiscatory taxes on estates destroy a productive tax base.

Chart VII



Estate taxes should be devoted to debt retirement, and would best be left to the states.

ening of the tax base to support the government at th time when estates have been leveled down to some precor ceived, apparently desirable limit. If collections fro estate taxes could be dedicated to debt retirement, muc of the objection to them as capital levies would be remove Like highly progressive income taxes, progressive esta taxes tend to "kill the goose that lays the golden eggs."

The taxing of estates is now shared by the states ar the federal government, but not equally—the federal go ernment taking the larger share. A possible solution wou be for the federal government to retire from this field taxation in favor of the states. There would be less dang

f rates being raised to the point of confiscation if they ere left to the states because the various states would rive competitively for lower rates in order to attract ell-to-do persons.

Our federal tax system is a crazy-quilt pattern—a onfusion of tax theories and political expediencies. Most f our tax ills, such as progression to the point of threaten- g the future of the private enterprise system and inva- on of the tax fields of state and local governments, result om mounting federal budgets. Numerous proposals have een made for a theoretically sound federal tax system. lthough many of these proposals have merit, the only al solution for our tax troubles is a reduction in fed- al expenditure to the necessary functions of govern- ent.

Reduction in federal expenditures to the necessary functions of government must provide the ultimate solution of our tax troubles.

PART III. SOCIAL SECURITY

The federal Social Security Act adopted in 1936 has r-reaching implications. The merits of the social security rogram are outside the scope of this chapter. Even its nancial implications cannot be covered in detail in this rief review. But any account of fiscal trends which nored this major development would be incomplete. Vhat has come to be called the "social security program" nbraces the following:

1. Unemployment compensation
2. Contributory old-age pensions
3. "Categorical relief" for indigent aged, mothers with dependent children, and the blind

The federal social security program includes unemployment compensation, contributory old-age pensions, and "categorical relief."

nemployment Compensation

Unemployment compensation is administered and nanced by the states. Those covered by the system are ntitled to receive weekly benefits when unemployed. ayments are made after a waiting period of 2 weeks or ore and there are limits to the period for which the pay- ents are made. The payments are financed through pay-

Since all the states now have unemployment compensation, which they finance and

administer, federal retention of portion of the pay-roll tax seems unnecessary.

roll taxes paid wholly by the employers, except in fou states which also tax employees. To force the states t adopt unemployment compensation, a federal pay-ro tax is levied against employers with a credit up to 90 pe cent for such taxes paid into state funds. This provisio had the effect of forcing all the states to adopt this forr of benefits. Now that that end has been accomplishec there seems to be no valid reason for the federal govern ment to retain the 10 per cent of the tax. Out of th retained pay-roll tax for unemployment, the federal gov ernment makes grants to states for the administration c unemployment compensation. Through this device, tl federal government also exercises some control, presum ably of an advisory nature, of unemployment compens: tion. Also the Social Security Board compiles data on tl working of the plan in various states.

The law also gives federal government control of state balances to spend as it sees fit.

The federal government performs another fun tion, that of "investing" the reserve funds of the vario states. Each state is required to turn its reserve func which result from the excess of pay-roll taxes over benefi paid out and administrative costs, over to the feder government where they are "invested" in federal secu ties. The full implication of this transaction is not imm diately apparent. It should be noted that in this way t federal government comes into possession of cash whi it receives from the several states. This money is imm diately available, in the general fund, for any type expenditure. Having received and spent the money, t Treasury gives its IOU to the trust fund in the form o federal security.

Contributory Old-age Annuities

The financing of annuities for retired workers a for their dependents presents a number of problems wh can only be discussed here in barest outline. As origina set up, the act provided for pay-roll taxes levied equa against the employee and the employer. The rate began 1 per cent for each and was to be stepped up until in 19 it was to reach a maximum of 6 per cent. The act as amended in 1939 to provide payments to surviv g

idows and dependents and for joint survivorship of isband and wife under certain conditions. These changes oviously, because of the added cost, greatly affect the nancing of the system. Also the pay-roll tax rates have een temporarily frozen at 1 per cent each on employee nd employer instead of rising as originally planned. The ain reason for freezing the rates was the feeling that a rge reserve fund resulting from an excess of receipts ver payments over a long period was undesirable. In other ords, for the present we are presumably experimenting ith a pay-as-you-go policy, with perhaps a small conngent reserve fund.

Because of fuller employment and hence increased overage during recent years, reserves are accumulating a fairly rapid rate in spite of the temporary freezing of ie tax rates.

In the case of old-age annuities also, reserves are spent by the federal government as it may choose, and whenever outgo in benefits exceeds receipts its balance must be secured by borrowing or taxation.

For many years collections through pay-roll taxes ill exceed benefits paid out. The act provides that this xcess of payments shall be turned over to a trust fund and ivested in special securities of the federal government. As the case of the unemployment reserve funds, the federal overnment comes into possession of cash which it spends. t the same time, the Treasury gives the fund an IOU in ie form of a special government security. It also guarantees to pay interest on these at a specified rate. Thus, irough "investments" and interest, the reserve fund coninues to grow.

But this is no better than a bookkeeping transaction. y issuing these special government securities to the Unmployment Insurance and Old Age and Survivors' Funds, he Treasury avoids issuing or refunding an equal amount f marketable securities. When outgo exceeds income for nemployment and old-age purposes, the Treasury will ave to cover the difference by the sale of marketable ecurities or by taxation. Thus, in the last analysis, general axes, and not only pay-roll taxes, will be needed to pay uture benefits. In this process, as in all government borowing, we are only transferring to a future generation he problem of validating these promises-to-pay out of roduction—the only way in which they can really be aid.

Federal contributions to "categorical relief" are discussed under Grants-in-aid.

Categorical Relief

Another important feature of social security is t financial and advisory assistance given by the federal go ernment to states for special types of relief: (1) aid f indigent old persons, called "old-age assistance"; (2) a for dependent children; and (3) aid for the blind. The forms of aid are given on the basis of need, not on t basis of contributions as in the case of old-age annuiti and unemployment compensation. In the latter case, it the employer alone who contributes in all states but fou Federal contributions for these types of relief are cover more fully in the section on Federal Grants-in-aid.

Costs of Social Security Program

A recent study gives an excellent summary of t financial cost to the federal, state, and local governmen of the social security program. To that study the read is referred for a full and able discussion of the financi problems involved.[1] From that study a few high lights to present and future costs and the financial problen involved are given here:

1. Unemployment Compensation Funds

The state unemployment trust funds have risen in 10 years (1936–1945) to more than 6 billion dollars; the number of covered workers passed 42 million in 1943.

The number of beneficiaries of the state fun decreased from 5,220,000 in 1940 to 596,000 in 1943- reflecting the great decrease in unemployment. Bene payments likewise decreased from 519 million dollars 1940 to 79 million in 1943. The number of cover workers, also an indication of increased employment, ro from 30 million persons in 1939 to 42 million in 194 All these factors combined have increased the contrib tion to state funds. These rose from 854 million dollars 1940 to 1,325 million dollars in 1943. The balance state accounts in the unemployment trust fund increas from 65 million dollars in 1936 (the first year) to 4,7 million in 1943. It was 6,747 million dollars in 1945.

On the basis of these trends and estimating futu

[1] *Social Security—Its Present and Future Fiscal Aspects,* Tax Foundati June 1944.

nployment and wage rates, the Tax Foundation estimates e growth of the unemployment trust fund. By 1960, it estimated that there will be over 10 billion dollars, most which will be invested by the federal government in its vn securities.

2. Contributory Old-age Fund

This fund, which is labeled "Federal Old Age and rvivors Insurance Benefits," in spite of present freezing the pay-roll tax rates and in spite of increased benefits ɔt originally contemplated, will in time reach a stagger- g sum. Limitation of space prevents full discussion of e intricacies of the financing of this system of annuities d insurance, but a few high lights may be helpful.

Benefits now include annuities for covered workers, nt-survivor annuities where the wife is still living, and nefits for children under eighteen, for widows, and en for parents surviving the insured worker. The Tax undation estimates that the total beneficiaries of all nds will increase from 2,498,000 in 1945 to 11,942,000 1980. Total benefit payments, it is estimated, will in- ease from 236 million dollars in 1945 to 3,306 million 1980.

Finally, the reserve fund (assuming later a resump- n of the increase in pay-roll taxes to reach a maximum 6 per cent on both employees and employers) has been imated by the Tax Foundation to increase from 7,979 illion dollars in 1945 to 65,429 million in 1980. The plications of the accumulation of so vast a fund are ggering to the imagination. The unreality of such an cumulation of paper credits is too often overlooked. this point, the comments of the Tax Foundation as both the old-age and the unemployment compensation erve funds are most significant:

The so-called reserve in the old-age fund would increase from about 8 billion in 1945 to 65 billion dollars in 1980 if pay-roll taxes should be increased to 6 per cent on both employers and employees (Tax Foundation).

> The so-called reserve in both the federal old-age and the eral unemployment compensation accounts is obviously nothing ept the government's debt to these funds. What actually is happen- is: (*a*) Taxes in excess of current benefit payments are being ected; (*b*) these excess receipts are borrowed from the fund and nt for general governmental purposes; and (*c*) if and when the

But this would be merely a paper credit representing Treasury debt, and taxes would be required to meet excess of payments over receipts.

reserve must be drawn upon through liquidation, funds to meet draft must be obtained by selling to the public some of the fu assets. This would result in transferring the government's debt fr the fund to the public. If the traditional policy with respect to t debt should be followed, namely, to retire it at maturity, it wo therefore become necessary to levy taxes for amortization as well for interest. Hence, the taxation whereby the reserve had been crea originally would have been in vain, for a second tax levy wo eventually become necessary in order to provide the money for future social security payments. This second levy would be, direct for interest and amortization of the bonds taken from the reserve. the existence of these bonds is evidence that someone had alre contributed the money to buy them, and is supposed to be proof t no further taxation would be required to pay the benefits represen by the bonds.

The plain truth is that the program which is now operative the United States involves, for a considerable period, a tax levy u in part for general purposes and in part for bona fide security p ments. The taxes now being collected are principally devoted general purposes and only in minor degree to genuine social secur purposes. As the benefit payments expand, the proportion of the yield that can be diverted to general purposes will decline. Eventual the entire amount of the tax may be required to support the progra

3. Categorical Relief and General Relief Costs

The cost of general relief was not reduced between 1936 and 1939 by these social security measures.

As to these benefit programs, the cost to all lay of government increased greatly from 1936 to 1939; th was a slight decline in state and local outlays in the ye 1940 to 1942. For example, federal grants for old-a assistance, aid for dependent children, and for the bli rose from 75.5 million dollars in calendar year 1936 365.4 million in 1942. During the same period, st and local expenditures for categorical relief rose fr 142 million dollars in 1936 to 411 million in 1942.

Federal work relief and categorical relief (shar jointly by federal, state, and local governments) did r yield the predicted result of a decline in general rel borne by the state and local governments without fede aid since 1936. For example, state and local expenditu for general relief rose from 58 million dollars in 1930 485 million in 1939. The reduction in unemployme because of the war effort reduced state and local outla for general relief to 180 million dollars in 1942.

Conclusion

The social security program is designed to provide for the hazards of old age, unemployment, and other forms of infirmity and dependency. The social aims of this program have the strong support of public opinion. The future success of the various features of the program, however, depends upon its administration and its financing. Attempts to insure future payments by investments in special federal securities may be deceptive. Such investments by the government may easily become an accounting mechanism which obscures the real nature of the public debt. This tends to disguise the fact that the real cost of the program is met only by taxation—past, present, or future. A pay-as-you-go policy, with provisions for a small contingent reserve for old-age annuities, is the only sound method of finance. Benefit payments should never be used to encourage idleness on the part of the beneficiaries, thus lessening production and lowering the national income. For, after all, the only real social security for this and future generations lies in our increased national production per capita.

The future success of the social security program depends upon administration and financing. In the main, a pay-as-you-go policy is the only sound method of financing. And increased national production per capita is the only real basis of social security.

PART IV. FEDERAL GRANTS-IN-AID[1]

By their recent rapid growth, grants-in-aid to the states have become one of the most important aspects of federal finance. And the prospects are that these grants will be augmented in the future. But despite their present importance and prospective increased importance, federal grants, most observers believe, have never been and are not now a systematic reflection of a well-considered, consistent national policy.[2] Moreover, some economists tend to repudiate the principle of federal aid, and argue, for example, that "if all federal funds were obtained through taxation" instead of in large part through borrowing, federal superiority would disappear "and the states and cities would discover that they were able to administer

Grants-in-aid are an important aspect of federal finance, but may not reflect a sound national policy in the long run.

[1] For basic tables, see Appendix C, pp. 1047–1050.

[2] See J. P. Harris, "The Future of Federal Grants in Aid," *Annals of American Academy of Political and Social Science,* January 1940, p. 14. This article has been relied on for much of the material in this section. See also A. Hansen and H. Perloff, *State and Local Finance in the National Economy,* 1944, p. 125.

and finance their activities to a degree which they unwilling to admit while the funds come from nobod pocket."[1]

What Is Federal Aid?

They are periodic payments from the federal government to states and localities, usually for specified purposes but administered by the state or locality.

Although disagreement, often bitter, exists w respect to the purposes and effects of federal aid, m observers agree with respect to definition. V. O. Key, for example, remarks that the grant-in-aid in its typi form implies a periodic (usually annual) lump-sum pa ment to the states for more or less carefully specif purposes.[2] The activity will usually be managed by a st or local officer and the funds will be held by and disbur through the state's or locality's ordinary fiscal machiner In this definition the Treasury Department[4] and H. Groves[5] in general concur, although Groves points o that purposes have not always been specified.[6] W. Willoughby restricts his definition to those grants wh the states or localities are required to "match"; *i.e.,* put a sum of money equal to the sum granted by the fede government.[7] Apart from the condition introduced Willoughby, most observers agree, then, that grants-in-a are periodic payments from the federal government the states or localities.

The payments of this type are usually made for m or less carefully specified purposes (under conditio imposed by the federal government on the states) and a administered, not by the federal government itself, but the state or locality (although the federal governme may, to some extent, exercise supervision). Thus the di tinction (which is useful for some purposes) betwe so-called regular federal expeditures and federal expen tures for grants to the states and localities turns, in t

[1] Lutz, *op. cit.,* p. 141.

[2] *The Administration of Federal Grants to States,* 1937, p. 23.

[3] *Ibid.*

[4] *Combined Statement of Receipts, Expenditures, and Balances,* for year ending June 30, 1941, pp. 712–714.

[5] Groves, *op. cit.,* p. 602.

[6] *Ibid.*

[7] W. F. Willoughby, *Financial Condition and Operation of the Fe Government,* 1921–1930, p. 148.

ain, on the matter of administrative and financial achinery. The federal government uses its own admin-rative and financial machinery for regular expenditures d the administrative and financial machinery of the ate or locality for grants.

This is not meant to imply, of course, that the fed-al government, because it leaves *administration* in the nds of the states and localities, exercises no *control* over ate and local functions. It is not a matter for dispute at the federal government exercises some control over l aided functions and much control over many. For ample, the Bureau of Public Roads prescribes standards road construction, the joining of roads to assist the w of traffic, etc. The Social Security Board and various reaus within the U.S. Department of Labor control to considerable extent the manner in which the states dis-nse so-called categorical relief to the aged and blind, for aternal and child health, etc. The federal government able to exercise control of this sort because in most cases e states, in order to obtain their share of federal funds, ust comply with federal direction.

The federal government, however, maintains some control over functions thus aided.

Some types of cooperation between the federal gov-nment and the states, although they meet the above finition in part, do not meet it in full and are therefore t considered to be grants-in-aid. Federal payments to e National Guard, for example, have some of the char-teristics of a grant-in-aid but are not considered to be ch because they are administered, in part at least, by e federal government. Funds are disbursed in each state a U.S. Property and Disbursing Officer to individual embers of the Guard (for drill attendance, etc.), but the ate determines the location of Guard units and may e the Guard to repress internal disorders.[1]

Some types of federal-state cooperation, administered mainly by the federal government, are not counted as grants-in-aid.

Likewise, other examples exist, especially within the epartment of Agriculture, of federal expenditures which quire some state cooperation but which are adminis-red mainly by the federal government, and are not, erefore, strictly speaking, grants-in-aid. In the Agri-lture Appropriation Act of 1937, for example, funds ere allocated for barberry eradication, blister-rust con-

[1] Key, *op. cit.*, p. 24; see also Harris, *op. cit.*, p. 14.

trol, and eradication of tuberculosis in animals. Expen
ture of these funds within the various states was ma
contingent on state and local financial participation, b
primary responsibility for seeing these projects throu
was placed on the Department of Agriculture.[1]

It may be worth while to point out here that t
above definition, although useful, is somewhat arbitra
and should therefore be used with care. For example, so
of the problems raised by payments for the Natio
Guard or for barberry eradication may be precisely t
same as some of the problems raised by payments whi
are more strictly of the grant-in-aid type. When su
problems are being discussed the National Guard, barbe
eradication, and such other types of nongrant cooperati
as raise the same problems should, of course, be includ
The above definition is at best a rough tool and mer
means that most of the problems and difficulties creat
by one so-called grant are created likewise by most of t
other so-called grants.

Growth of Federal Aid

While grants of land were made to the states in early days, annual money grants were begun only about 60 years ago, and by 1915 the total grants amounted to less than 5 million dollars a year.

The federal grant policy dates back to the early days
the Union when public lands, to be used for schools, roa
and other purposes, were given to the states.[2] It was n
however, until 1887 that the device of making ann
money grants was instituted.[3] When money grants w
begun, some doubt existed whether Congress could, co
stitutionally, make such grants and "various subterfu
were used."[4] Federal aid was given to the interstate tru
highway system, for example, under Congress' power
establish post offices and post roads. When the first gran
in-aid of forest-fire prevention were made, Congr
avoided the constitutional issue by limiting the grants
forests covering the watersheds of navigable strea
Presently, however, Congress "became bolder—that
more indifferent to the constitutional issue"[5]—and gra

[1] Key, *op. cit.*, p. 25.

[2] Lutz, *op. cit.*, p. 140.

[3] "Federal, State, and Local Government Fiscal Relations," 78th Cong
1st Session, Senate Doc. No. 69, p. 160.

[4] Lutz, *op. cit.*, p. 140.

[5] *Ibid.*, pp. 140–141.

ere soon being made for forest-fire protection on any iblicly or privately owned lands.

Before 1915, total annual grants, not including ose for the National Guard, were less than 5 million llars. After the passage of the highway act in 1916 the tal rose to about 100 million dollars a year and remained approximately that level through 1930. During this riod, the matter of federal aid provoked much conoversy, and as a result the only large federal grant was r highways (about 80 million dollars a year). The others gether were kept between 10 and 20 million dollars a ar—less than 1 per cent of the national budget. Of the tter sum slightly more than half went to state agriculral colleges for experiment stations, extension work, and ricultural and scientific education. About one third ent to vocational education and the balance, in annual propriations of less than 1 million dollars each, to forestre protection, vocational rehabilitation, public health, d maternal and child health.[1]

In 1916 this rose to about 100 million dollars of which 80 million dollars was for highways.

Since 1936, however, the volume of grants has ineased substantially—to 473 million dollars (7 per cent the federal budget) in 1938 and 718 million dollars in 943. These figures include only what the Treasury calls gular grants-in-aid and *do not* include grants financed it of *recovery* and *relief* appropriations. Nor does the 938 figure include 1,415 million dollars spent on WPA. his sum was spent in part in cooperation with the states it, because federal administrative machinery was used r disbursements and procurement, the expenditure does t qualify as a grant-in-aid in the strict sense.[2]

After 1930 grants-in-aid increased to 473 million dollars in 1938 and 718 million dollars in 1943.

The increase from 1936 to 1943 can be accounted fr largely, but not wholly, by increased federal largess uder the Social Security Act. Under this act federal aid is given for old-age assistance, aid to the blind, aid to dpendent children, maternal and child health, aid to cppled children, unemployment compensation administtion, child welfare, and public health. All but the last tree are "matching" grants; *i.e.* the states are required t spend on the function a sum equal to the amount

Most of this increase since 1936 was under the Social Security Act.

[1] Harris, *op. cit.*, p. 14.

[2] Key, *op. cit.*, p. 24, and Harris, *op. cit.*, p. 14.

granted by the federal government. In 1938 total gran under the Social Security Act were 275 million dolla By 1943 they had risen to 454 million dollars.

But, as indicated above, not all of the increase whi occurred between 1936 and 1943 can be accounted for grants under the Social Security Act. Direct grants f highways, which were 23 million dollars (exclusive relief and recovery funds) in 1936, were 141 milli dollars in 1938 and 146 million dollars in 1942.[1] Gran for aid to agriculture were 27 million dollars in 193 31 million dollars in 1938, and 36 million dollars in 194 Payments for vocational education and rehabilitation lik wise increased. (For a discussion of recovery and rel expenditures, see pp. 731–735.)

This brief review suffices to show the speed wi which federal aid has grown in the immediate pa Further, if pressures being currently exerted are succe ful, this growth will be accelerated. These pressures a discussed below in the section on Current Proposals f Extension of Federal Aid.

Pros and Cons

During the period 1920–1930 federal aid arous considerable heat and was roundly denounced by memb of both major political parties. President Coolidge, f example, remarked that "the reduction of federal aid the states is more important than tax reduction or U adherence to the World Court."[2] The late Govern Lowden of Illinois has said that "there is scarcely a doma in the field of municipal or state government that t federal government is not seeking to invade by the u of federal aid. The rapid extension of federal administ tion not only means greatly increased expense because f duplication of efforts, but it means also the gradual brea ing down of local self-government in America."[3]

Opponents of federal grants-in-aid argue

In general, *opponents* of federal aid make four ty s of arguments. They argue (1) that soundness is not p moted by allowing states or localities to spend mon

[1] 82 million dollars in 1943.

[2] Quoted in A. F. McDonald, *Federal Aid,* 1928, p. 237.

[3] *Ibid.*

hich they have not themselves raised. They argue (2) iat the lure of free funds may induce state and local ficials to extend activities beyond state or local need. hey argue (3) that it is not wholly fair to require the ealthier states to support the poorer states.[1] President oolidge remarked in this connection that federal aid mposes unfairly on the strong and encourages the weak their weakness."[2] And they argue (4) that the federal overnment may by the use of grants encroach upon the ates and localities and ultimately dictate and control ate and local activities. Apart from encroachment, which itself a danger, these observers argue that federal officials nnot know local problems and are not responsible to cal voters. On this so-called states'-rights issue, McDon-d, however, asserts that states' rights is not a principle, it a policy "to be adopted at such times and in such aces as offer momentary advantage."[3] He states further, iat so-called federal domination "consists of a three- or ur-day visit once a year. The work is planned and rried out in each state by the latter's own officials."[4]

that it is unsound to permit states and localities to spend money they have not raised; that the lure of free funds induces expenditures beyond need; that wealthier states should not be required to support poorer states; and that the federal government through grants may acquire control of state and local activities.

In 1923 the Supreme Court, regarding the constitu-nal issue, declared that grants "do not require the states do or yield anything. If Congress enacted [the statute] ith the ulterior purpose of tempting them to yield, that irpose may be effectively frustrated by the simple ex-dient of not yielding." (In raising the constitutional ue, Massachusetts had argued that the states were forced choose between two equally unsatisfactory alternatives: elding a part of their rights to the federal government losing their share of the appropriated funds.)[5] But ier implies that grants submit state and local officials to cessive temptation and points out that "the history of ants indicates that local authorities have allowed them-ves to be bought."[6]

The *advocates* of aid argue (1) that many services

[1] Harris, *op. cit.*, p. 17.

[2] McDonald, *op. cit.*, p. 243.

[3] *Ibid.*, p. 240.

[4] *Ibid.*, pp. 259–260.

[5] *Massachusetts v. Mellon,* and *Frothingham v. Mellon;* see McDonald, *op. cit.*, p. 258.

[6] "Grants-in-Aid," *Encyclopedia of the Social Sciences*, Vol. VII, p. 155.

Advocates argue that services may thus be administered without duplication of machinery; that grants-in-aid impart flexibility to our constitutional system; that they finance services beyond state and local means; and that federal supervision raises state and local administrative standards.

are both national and local interest, and the grant dev makes it possible to serve both interests without duplic tion of administrative machinery. They argue (2) t the device imparts flexibility to our constitutional syste The latter, these observers believe, is unduly rigid. Th argue (3) that the grant is a valuable method of finar ing services which, if the grant device were not availab would be beyond the resources of state and local gover ments. The grant helps therefore, these observers belie to preserve the states and localities, by providing th with funds with which to pursue the functions assign to them. They argue (4) that federal supervision has rais state and local administrative standards.[1]

With respect to this last issue H. J. Bitterman l lieves that "the aim of the grant is to compel a minimu but not a uniform, level of efficiency." He asserts that discriminating use of the grant "it is possible to modi the minimum standard of administration, usually upwa and to compel localities to accept such standards becau failure to do so involves suspension of the grant."[2] B Bitterman, himself, indicates that grants are rarely su pended but are often paid "as a matter of course," a insofar as they are so paid, can have little effect on st or local standards.[3]

With this collision of opinions, clarification of terminology and finding of facts are needed, and the provisions and operation of specific grants should be analyzed.

The two sets of views outlined above plainly coll and, on the whole, resolution of them is not easy. The d cussion is, in the main, assertive and singularly free of fa or proof. And error will perhaps be multiplied by taki as Harris[4] does, a consciously "moderate" view; *i.e.*, t federal aid is neither wholly good nor wholly bad. Har himself suggests that a discussion of the pros and cons federal aid, "without attention to the provisions and ope tion of individual grants," is of little value.[5] This is tr We seem to need, therefore, (1) a clarification terminology and (2) more facts. What, for exam are states' rights and what constitutes encroachment them? Is states' rights a principle or as McDonald sugg

[1] Harris, *op. cit.*, p. 18.

[2] H. J. Bitterman, *State and Federal Grants-in-aid*, p. 6.

[3] *Ibid.*, p. 7.

[4] Harris, *op. cit.*, p. 18.

[5] *Ibid.*

erely an occasionally expedient policy? Is it true that r constitutional system is "rigid" and, if so, in what ecise respects? Are the services now financed by federal ants-in-aid in fact "beyond the means of state and local thorities" or, as Lutz suggests, are state sources of reve- e adequate to a reasonable standard of state needs? To iat extent have grants increased state administrative iciency? Also, to what extent is it desirable to tax the ealthier states to support the poorer states? To what tent do grants perpetuate maladjustments brought about change and progress? And to what extent do they ntralize power in the federal government?

tension of Federal Aid to Education

Despite the fact that the disagreements in principle, licated above, have not been resolved, pressure is pres- tly being exerted for additional federal grants.[1] These clude proposals to broaden grants under the Social curity Act and to extend federal aid to education. In dition there is considerable sentiment for turning unem- oyment relief (should the latter become necessary) back the states and localities to be carried on with federal l.[2]

The pressure for more general federal aid to educa- n, dating back to World War I, was intensified in the ars of depression when schools in many states had in- ficient revenue.[3] In 1936 President Roosevelt created Advisory Committee on Education which in 1938 commended federal grants for education, to be increased adually in amount from 72 million dollars the first year 200 million by the fifth year. The broad outline of the mmittee's program was embodied in a bill introduced the first session of the 76th Congress.[4] Allocation of

The pressure for extending a wider measure of federal aid to education, by grants to the states, was reflected in programs put before Congress in

[1] An act approved Dec. 20, 1944, provided 1,500 million dollars for federal way aid "to become available at the rate of 500 million a year for each of three essive postwar years." Of the annual sum, $225 million is to go to the federal- highway system, 150 million to principal secondary and feeder roads, and 125 ion to urban areas.

[2] See Harris, *op. cit.*, p. 16.

[3] *Ibid.*

[4] S. 1305, 76th Congress, 1st Session.

1939 and 1943. The former program provided annual grants of 200 million dollars to be allocated to states according to educational load and financial need.

grants among the states was to be based on an index "financial need" to be made up from educational load the one hand, and financial ability on the other. In additi to general elementary and secondary school aid, the b proposed smaller amounts for training teachers, buildi construction, state education departments, adult educ tion, rural libraries, cooperative educational research, a education of children on federal reservations. The gra were to be made contingent on (1) no reduction in sch expenditures out of state funds; (2) an equitable d tribution of funds to schools for minority races (wh separate schools are maintained), and (3) distribution funds among local school jurisdiction "in such manner to assist effectively in equalizing educational opport nities" within the state.[1] This program and bill met mu opposition in Congress.[2]

The 1943 bill included an "equalization grant" of 100 million dollars to be allocated on the basis of need and an emergency grant of 200 million dollars to be allocated on basis of attendance.

Pressure for the program was maintained, howev and on June 18, 1943, a similar bill was reported c favorably by the Senate Committee on Education a Labor.[3] This bill was introduced, purportedly, "to as the states and territories in more adequately financi their system of public education during emergency, a in reducing the inequalities of educational opportun through public elementary and secondary schools."[4] T grant to help states in periods of emergency would be 2 million dollars. The so-called equalization grant would 100 million dollars. The 200-million-dollar emerge grant would be allocated among the states on the basis the ratio of average daily public-school attendance wit the state to average daily public-school attendance in nation. The equalization grant would be allocated on basis of an index of "financial need."

> [The bill stipulated that] no department, agency, or office the United States shall exercise any supervision or control over school or state educational agency with respect to which any fu are expended pursuant to this Act, nor shall any term or conditio any agreement under the Act authorize any agency or officer of

[1] See Hansen and Perloff, *op. cit.*, pp. 147–148.

[2] See Harris, *op. cit.*, p. 16.

[3] S. 637, Report No. 323, 78th Congress, 1st Session. Recommitted, Oct 1943; reported out, Sept, 21, 1944.

[4] *Ibid.*, p. 1.

ited States to control the administration, personnel, curriculum, truction, methods of instruction, or materials of instruction.

In recommending passage of the bill the majority port remarked, with respect to the proposed emergency ants, (1) that in many cases "the most intolerable shift- g and loss of personnel" had occurred. The minimum imates presented to the Committee "show that not less an 75,000 teaching positions can be expected to be cant next school year unless the situation with respect financing of schools is changed." The majority report ded (2) that the chief cause of the loss of teachers the inadequacy of teachers' salaries"; (3) that "the ancial ability of the states to meet the current crisis is ing rapidly reduced by the necessary expansion of fed- l taxation"; and, (4) that if the federal government es not go to the aid of the states "the situation will come rapidly worse."[1] The equalization grants are nec- ary, the majority believed, because the distribution of onomic resources over the country "makes an equitable tribution of public services supported by state and local xes a matter of practical impossibility. Concentration in few places of ownership, control, and taxpaying ability sed on resources scattered throughout the nation calls r an increasing degree of federal participation in the pport of educational services."[2]

The proponents of the 1943 bill cited the shifting and loss of teaching personnel because of inadequate salaries, and the reduction of financial resources of states by expansion of federal taxation; also the uneven distribution of economic resources.

On the other hand, the minority report, in opposing ssage of the bill, argued (1) that common- and high- hool education is the obligation, not of the federal gov- nment, but rather of the states and localities. "The people each community are authorized to vote additional tax ies on themselves for schools, if they feel that more oney is needed. There is complete home rule in the field education, and that is what the people want."[3] The port argued (2) that many states are accumulating pluses, and no evidence exists that the states are unable finance their own educational systems. The report ded (3) that the adoption of the bill "would embark federal government on a program of gradually increas-

The opponents argued that the people want home rule in education; that many states are accumulating surpluses; that the aid would open the way to largely increased federal

[1] *Ibid.*, p. 205.

[2] *Ibid.*, p. 8.

[3] *Ibid.*, Minority Views, p. 3.

expenditures; and that real equalization could be achieved only by complete federal control of education.

ing expenditures from which it would never be relieve[d]. And ultimately the federal government might be forc[ed] to contribute "the greater part of 4 billion dollars a yea[r]." It was predicted (4) that the bill, if passed, would be [the] beginning of the end of local self-government in edu[ca]tion. "Our experience with the social security laws le[ads] to the definite conclusion that federal subsidy in the e[nd] means federal control."[1] It was held also (5) that [the] so-called equalization grants

> . . . do not equalize. We find (for example), that in Louisi[ana] the cost per white pupil is $61.21 whereas the cost per negro p[upil] is $12.62. Nothing in this act requires any equalization between w[hite] and negro pupils. It is true that the bill requires the federal fu[nds] to be distributed on an equitable basis between white schools [and] negro schools, but it does not change the distribution of Louisi[ana] funds. Equalization, as a matter of fact, cannot be achieved exc[ept] by complete federal control and direction.[2]

Broadening of Social Security Program

Plans for broadening social security and welfare programs include extension of old-age and unemployment insurance to include entire population; health insurance, with grants-in-aid for medical research and education; and a uniform national development of facilities for

In their recent volume on *State and Local Fina[nce] in the National Economy,* Hansen and Perloff sugg[est] substantial broadening of our social security and w[el]fare programs. (Hansen is the country's foremost ad[vo]cate of so-called "compensatory" fiscal policy.) Th[ey] suggest (1) the extension of old-age and unemplo[y]ment insurance to include nearly every citizen [of] the country: domestic servants, agricultural and ot[her] workers, and perhaps even the self-employed. They su[g]gest (2) a broad health insurance program patterned [on] the program outlined in the Wagner-Murray bill.[3] T[he] latter bill would, in part, provide hospital and medi[cal] insurance, and the Surgeon General would be authori[zed] and directed to administer grants-in-aid to nonpro[fit] institutions and agencies engaging in research or in und[er]graduate or graduate professional education. Such gra[nts] would be made in behalf of projects showing promise [of] making a contribution toward the training of persons [in] the field of administering medical, hospital, and disabil[ity] benefits, or of making a valuable contribution to kno[w-]

[1] S. 637, Report No. 323, 78th Congress, 1st Session, pp. 5–6.

[2] *Ibid.*, p. 7.

[3] 78th Congress, 1st Session, S. 1161.

dge of the cause, prevention, and treatment of disease. 'he maximum sum available each year for such grants 'ould be 1 per cent of the total spent for all benefits 'om the social insurance trust funds (exclusive of unem- loyment insurance benefits), or 2 per cent of the amount ent for medical care and hospitalization—whichever 'ould be lower.

medical care, hospitaliza- tion, etc., with grants of over 200 million dollars a year to the states.

In order "to safeguard and effectuate a national ealth insurance system," Hansen and Perloff suggest (3) uniform and therefore national development of "health, edical care, and hospitalization facilities." They argue at "provisions for hospitalization, serums, X-ray treat- ents, etc., guaranteed under an insurance program, are eaningless unless the necessary facilities are available in e community of each insured person. On this count one, a substantial federal (general-purpose) health grant the states is called for."[1] To achieve the public health d hospital construction objectives Hansen and Perloff ggest federal aid of from 225 to 250 million dollars year.

'eed for a National Policy

Even those observers who agree in principle with deral aid concede that it has never been, and is not now, *system.* It is rather, they say, a hodge-podge of unco- dinated grants.[2] They believe further that present meth- ds of administration contain serious defects.

More particularly, these observers believe (1) that sofar as the aid program reflects a national policy that olicy is, in some respects, very much out of date. Earlier the century, for example, the major road problem as the construction of main rural highways and there- re grants were made for the construction of such high- ays. Recently, however, it has become evident that the ajor highway problem is the safe and efficient conduct traffic into, across, and around cities. The federal grant stem, however, still reflects the earlier problem which, least relatively, has been largely solved.[3]

[1] Hansen and Perloff, *op. cit.*, pp. 172–178.

[2] See Harris, *loc. cit.*, p. 17, and Hansen and Perloff, *op. cit.*, p. 125.

[3] Hansen and Perloff, *op. cit.*, p. 127.

It is conceded by supporters of federal aid for social services that the present grants-in-aid are not coordinated and not adapted to changed conditions; also that the "matching" requirements may induce an unwise distribution of state and local public funds.

These observers believe (2) that "the present poliy of federal [matching] aids for favored functions and se-ments of these functions is indefensible"[1] because te matching requirement is likely to induce local authorits to make an unwise distribution of their available fun. When federal aid is given to a few government functics or parts of functions, these functions are placed in a favored position with respect to securing state and lo appropriations. In fact, the success of most matchi grants is usually measured by the extent to which thy "stimulate" the localities to increase their expenditure the functions involved. Hansen and Perloff believe tht many "important and meritorious government servis (such as general education and relief) have suffered many areas of the country because of the diversion f available state and local funds into the aided activiti. Within the poorer sections of the country, especially, t extension of federal aid for a limited number of functios tends to bias state and local budgets in the direction f the aided services; and, from the standpoint of the rel-tive need for the various social services, to distort t budgets."[2]

Suggestions for preventing undue diversion of local funds into aided activities include unconditional grants, more federal supervision, and the English system of grants for only the most expensive state and local functions.

Harris suggests three solutions to this problem a seems to favor the third. He suggests (1) unconditior grants to be used by the local authority for any purp it chooses. He remarks, however, that such grants, wh used, have led to extravagance and an unsatisfactory pe-formance of the function.[3] In this view Lutz concur Harris suggests (2) that the problem might be solved l relaxation of the "matching" requirement. He points o however, that, in order to guard against prodigal expenc-ture of federal funds, Congress would be compelled authorize a larger amount of federal supervision. Su authorization Congress has, however, been unwilling grant. He suggests also (3) that federal aid might be pr vided for most of the expensive state and local functior "thus avoiding the favoring of a few."[5] This is the sol

[1] Harris, *op. cit.*, pp. 20–21.
[2] Hansen and Perloff, *op. cit.*, p. 127.
[3] Harris, *op. cit.*, p. 20.
[4] Lutz, *op. cit.*, p. 143.
[5] Harris, *op. cit.*, p. 20.

ion, he points out, which has been adopted in England.

Two other major problems have been met, these ritics believe, in something less than a scientific way: 1) the total amount to be appropriated for each purose and (2) the method of allocating the appropriated mount among the states.

With respect to the first problem, Harris remarks nat "the total appropriation has been fixed in an off-hand nanner without much attention to the total need for ne particular service throughout the country." The time as come, he believes, "when the federal appropriation ught to be considered much more carefully with relation the estimated cost of the service and the need for ederal aid."[1]

It has been suggested also that total appropriations for grants-in-aid be more carefully considered with relation to estimated cost of the service and need for federal aid; and that apportionment among the states reflect both need of the service and ability.

Harris also believes that the method of apportioning rants among the states is, on the whole, in need of revion. Some federal grants are apportioned in equal nounts to all states although, says Harris, "the only stification for this practice is the fact that every state as two Senators."[2] Many other federal aids are apporoned on the basis of population and, although populaon is only a very rough index of need, "this formula has ot worked badly for minor grants."[3] But he believes at much more refined techniques are needed for the ajor grants: techniques that will sensitively reflect both eed for the service and financial ability. At present, arris points out, little attention is paid to either of these vo criteria.

egular Federal Grants-in-aid

The following are the more important of what the reasury Department considers to be "regular grants-inal." (In some cases, the state, in order to qualify, must atch the federal grant. In other cases no such matching required.) Dates refer to the first authorizing statute.

The most important regular federal grants-in-aid include those for agricultural colleges, stations, and

1. *Agricultural colleges* (1890), *experiment staons* (1887), *and agricultural extension work* (1914).

[1] *Ibid.*, p. 21.
[2] *Ibid.*
[3] *Ibid.*

extension; forest conservation; highways; vocational education; vocational rehabilitation; and assistance under the Social Security Act.

These include federal participation in the activities ‹ county agents. The latter carry on a program of exte sion work in agriculture and home economics.

2. *Forest fire cooperation* (1911), *and forest co servation work* (1924).

3. *Highways* (1916). In 1930 about 75 per ce of total federal grants-in-aid was for highways. By 194 however, this ratio, largely because of greatly increas grants for welfare services, had declined to about 13 p cent. In general, federal grants for state highway projec require matching on the part of the state. During t thirties, however, the latter requirement was most removed.

4. *Vocational education.* Under the Smith-Hugh Act of 1917, and regularly since, revenue has been appr priated to help pay for teaching certain vocational su jects (agriculture, home economics, industrial trades, a "distributive occupations").

5. *Vocational rehabilitation* (1920). These pa ments are made to assist the training, retraining, a placement of disabled people. Grants for this purpose we enlarged by the Social Security Act.

6. *Public employment offices* (1933). The sta were required to put up, out of their own funds, amount equal to the federal grant. At the present tin however, the federal government is exercising dire control over these offices, and the funds expended a therefore no longer in the grant-in-aid category. (As November 1946, control is returned to the states.)

7. *Public health and welfare services* (1921). Pa ments for hygiene of maternity and infancy were beg in 1922 but stopped in 1930. The Social Security A renewed aid for this purpose and introduced payme for child welfare and disabled children, etc.

8. *Categorical public assistance* (1935). The Soc Security Act also provided for three types of grants: ca of the aged, dependent children, and the blind.

9. *Administration of unemployment compensati* (1935). The Social Security Act also provided funds be used by the states to pay the administrative costs state unemployment compensation systems. However, t

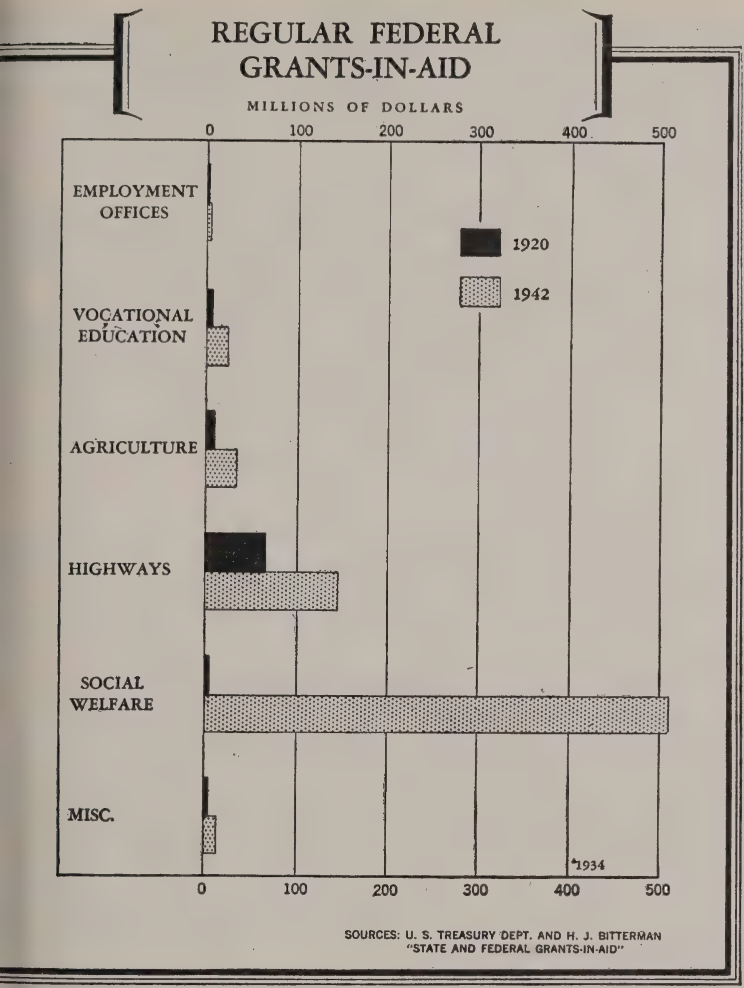


Chart VIII

deral government derives the funds for such payments om pay-roll taxes which it collects in the various states.

Chart VIII shows the growth of "regular federal ants-in-aid" to state governments, from 1920 to 1942. egular federal grants-in-aid are limited to periodic fedal payments to state and local governments for specified irposes. The chart does not include four general classes expenditures: (1) grants out of recovery and relief propriations (*e.g.*, PWA and highway projects); (2) yments to *individuals* from regular and emergency propriations (*e.g.*, the agricultural conservation proam, the WPA, and the Civilian Conservation Corps);

(3) *direct* federal expenditures in cooperation with sta (*e.g.*, the National Guard, the control of animal disea agricultural pest control, etc.); (4) federal revenues wh are shared with the states.

Conclusion

The growth of federal grants-in-aid conflicts with the fundamental concept of the limited powers of the federal government. Such grants are from money taken from the people of the states, and the purpose of uniformity of functions requires taking money from one state to give to another. Except for military defense, federal grants-in-aid should be opposed in order to restore state and local responsibility.

The growth of federal grants-in-aid is in direct co flict with a fundamental concept of our federal gove ment as a government of limited powers, granted to by the states. Federal largess, sometimes in the form outright grants, sometimes on a matching basis, tends make the states more and more dependent on the fede government. Unless checked, this movement may l to the complete abandonment of state and local se government.

The federal government offers and the states acc these grants apparently on the theory that the fede government has some source of funds not available to states or that in effect it takes money from the weal states and gives it to the poorer states. Of course, the f eral government has no money which it does not first t from the people of the states unless it creates it out thin air by resort to the printing press or by the creat of bank credit. Also federal grants are ostensibly motiva by a desire to create uniformity of functions among various states, but this unavoidably results in taking money from the people of one state and giving it to th of another.

The issue then seems to boil down to this: Do want to continue state and local self-government or do want to centralize all government in Washington, w states and cities mere vassals of the central governme Except for military defense, federal grants-in-aid sho be opposed so as to bring about a gradual return of st and local responsibility.

PART V. SOME PROBLEMS IN STATE AND LOCAL FINANCE[1]

Major problems of state

The major problems of state and local finance h arisen (1) from the concurrent expansion of federal, st

[1] For basic tables, see Appendix D.

nd local expenditures, and (2) from the federal charcter of our national government. The concurrent expanion of expenditures has made necessary (and the federal ystem has made possible) (1) a certain competition for evenue among the states, and (2) the use of overlapping ources by the federal government, the states, and in some ases the localities.

and local finance have arisen from concurrent expansion of federal, state, and local expenditures and the federal character of our national government.

In addition to growth of state and local expendiures, tax competition among the states, and overlapping ources, this section discusses municipal sources of revenue nd trade barriers.

Growth of State and Local Expenditures

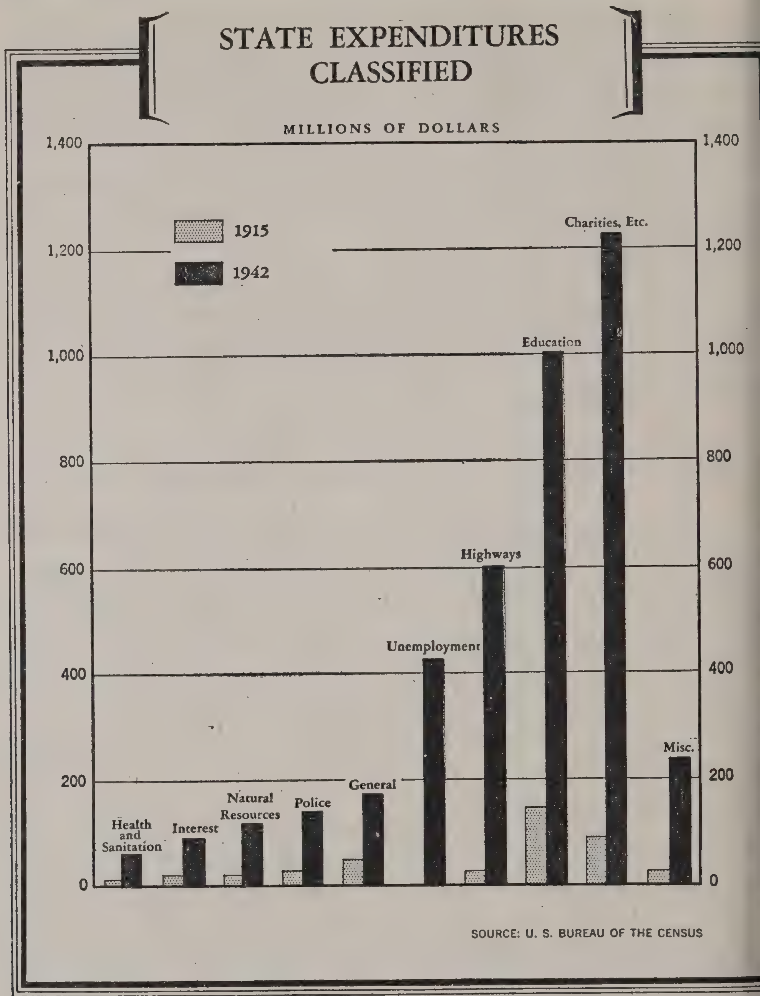
State expenditures can be divided into two general ategories: (1) Expenditures for the states' own funcons; *i.e.*, for functions which the states themselves rectly administer. This first category can in turn be subvided into expenditures for operation and maintenance n the one hand, and capital outlays on the other. (2) xpenditures in the form of grants to or revenue shared ith the localities; *i.e.*, for functions which are directly lministered not by the states themselves, but by the calities. Grants-in-aid to the localities for specified purposes can likewise be subdivided into grants to be used for peration and maintenance and grants to be used for pital outlays. Local expenditures, both capital and other, e almost without exception expenditures for their own nctions.

State expenditures may be for functions state-administered or in grants or allocations to localities to be locally administered. Local expenditures are for local government functions. And expenditures may be divided also into those for maintenance and operation and those which are capital outlays.

Chart IX compares the main classifications of state penditures for operation and maintenance in 1915 and 42; and the chart following shows the trend, sharply ward, of local expenditures over the period 1890–1942. classified breakdown of local expenditures is available ly for the years 1932 and 1941; see Appendix Table -11. For a classified breakdown by years of state capital tlays, see Appendix Table D-10. In total, the latter were million dollars in 1915 and 619 million dollars in 1942.

To explain the impressive growth which these charts ow, the following broad classes of reasons are put forth: pulation growth; urbanization; technological and sci-

Chart IX



Factors of increase in state and local government expenditures include (1, 2) growth and concentration of population;

entific advancement; war, economic depression, and, i general, emergency; defects of governmental organizatic and procedure; and, last, what Lutz calls "the huma element."[1]

In general, as *population* grows, governments mu increase total expenditures in order to maintain any give level of *per capita* expenditure. But the growth of popul tion in this country has been accompanied by a moveme toward the cities and larger towns, and special expenc tures, uniquely the result of *urbanization,* have be necessary. Traffic, for example, had to be controlled, a

[1] Lutz, *op. cit.,* pp. 75–104, and Groves, *op. cit.,* pp. 513–516.

anitation, fire prevention, and police provided. Parks and laygrounds had to be built, often at considerable expense; xpress highways, subways, or other expensive transportaion facilities were often required.[1] Although a single well nay be adequate to the needs of a town of a thousand opulation, "a city of a million may need to acquire the ights to an entire watershed."[2]

(3) technical and scientific advances;

Technological and scientific advances have likewise een responsible for a very large part of the increase. For xample, modern theories of education, psychiatry, crimiology, and penology have operated to increase the scope f and expenditures on education, welfare services, protecion, and correction. The schools, for example, have idened their curriculums and have taken on responsiility for vocational training, physical education, and hysical and dental examinations. The automobile has not nly made more highways necessary; it has made better ighways necessary. In 1900, apart from a few experiients in the cities, there was probably not a single mile of oncrete highway. Today there are thousands of miles of it nd thousands of miles of other types of improved road urfaces.[3] Further, improvements in housing and private ffice accommodations have made people less willing to ork or transact government business in buildings which re "cheerless, dingy, or lacking in elevator service."[4] And xpenditures on government buildings have consequently sen.

(4) war and economic depression;

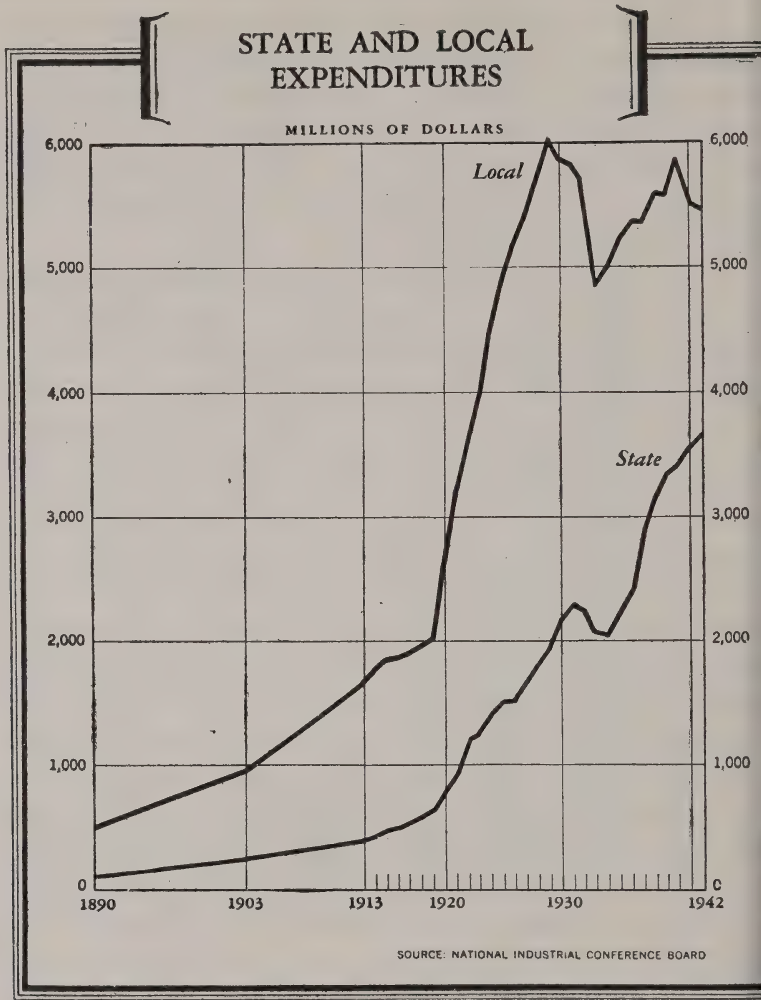
War and economic depression have perhaps been esponsible for the largest part of the increase of state and ocal expenditures. The former has made care for veterans ecessary and the latter has been the occasion of enormous xpenditures for relief.

(5) maladjustment between structure of government and work to be done;

A fifth factor in the increase of public expenditures a certain *maladjustment* which develops "between the ructure and organization of government and the governental work to be done."[5] This maladjustment, Lutz rgues, "is natural and to some extent inevitable, for the

[1] Lutz, *op. cit.*, p. 76.
[2] *Ibid.*, p. 76.
[3] *Ibid.*, p. 84.
[4] *Ibid.*, p. 103.
[5] *Ibid.*, p. 83.

Chart X



governmental structure is inclined to be static, while t economic and social order is dynamic."[1] One part of tl problem is the improper allocation of functions and fina cial resources as between central and local units of gover ment. Many local units, Lutz points out, are bearing financial load "which is well-nigh insupportable, to car services they will not relinquish."[2] Another part of t problem is the multiplication of governmental agenc both vertically and horizontally. In addition to the mun ipal government such as the city, town, borough, villa

[1] Lutz, *op. cit.*, p. 83.
[2] *Ibid.*, p. 90.

r township, we have the school district and numerous ther special districts for many diverse purposes—roads, vater, fire protection, street lighting, parks, libraries, etc.[1] urther "the growth and perpetuation of uncoordinated overnmental agencies have prevented effective control of oth administration and the application of funds."[2] In uch circumstances the alternatives are, Lutz believes, ither a thorough reorganization or "the continued tolera-ion of an inadequate and relatively inefficient organiza-ion and structure that is expanded from time to time to neet additional administrative pressure by the creation of umerous excrescent, ill-advised, uncoordinated bureaus nd other makeshift devices."[3]

(6) the varying impacts of the "human element."

A sixth factor which Lutz believes has increased overnmental costs is what he calls the "human element": ressure groups; the difficulty of getting citizens to pay lose attention to public affairs; the toleration of low tandards in public service; the modification of the popu-ar notion of governmental economy by "the gradual and teady disintegration of the old belief and attitudes toward hrift and personal economy"; and the "human inclina-ion to prefer tangible to intangible evidences of public ctivity." Every city spends far more on fire-fighting pparatus than it does on fire prevention.[4]

Tax Competition among the States

In their quest for larger revenues, some states have reached beyond their own boundaries.

In their quest for larger revenues with which to neet their increased expenditures, some states have taken to reaching beyond their own boundaries" for tax esources.[5]

In many cases this "reaching" is deliberate; in other ases it is produced by "technical difficulties which the tate intentionally or inadvertently resolves in its own avor."[6]

[1] *Ibid.*, pp. 87–88.

[2] *Ibid.*, p. 91.

[3] *Ibid.*, p. 84.

[4] *Ibid.*, pp. 79–82.

[5] Much of the material in this section is taken from J. W. Martin, "Tax ompetition between States," *Annals of the American Academy of Political and ocial Science*, January 1940, pp. 62–78.

[6] *Ibid.*, p. 64.

Income and Property Taxes

This is a large and growing problem especially wit
respect to the individual and corporate income taxes ar
the corporate property tax.

The question whether personal income is taxable where earned or in state of residence and varying interpretations of "residence" cause confusion and unfairness and sometimes duplication in taxation.

One state may, for example, assert the right to ta
an individual's income because the individual lives in th
state; the same individual may earn his income in a secor
state, and that state may likewise tax it. Such an individu
may pay larger taxes than other individuals merely becau
he lives in one state and earns his income in another. Di
crimination of this sort is arbitrary and unjust. The san
type of discrimination may arise even when all the stat
in question use the test of residence, but define residen
each in a different way. In some states a resident is a persc
domiciled within the state. In other states a resident is
person who maintains a "permanent abode" in that stat
In a third class of states a resident is a person who mai
tains a "permanent abode" for a specified period of tin
during the taxable year. In a fourth class of states, a res
dent is a person who merely spends a specified part of tl
taxable year in the state. And in Delaware and Louisiar
a resident is a citizen. Thus, if a person is a citizen of Del
ware, maintains a "permanent abode" in New York, ar
spends a "specified portion of the taxable year" in Califo
nia, he will be taxed by all three states.[1]

Likewise in state or local levies on corporate income and property, varying laws and practices cause endless complications and frequent multiple taxation.

Correspondingly with respect to corporations, o
state, in order to determine that part of a corporation
income which is subject to income tax, may use the test
sales: if 10 per cent of a corporation's sales are made in
given state, that state may consider that 10 per cent of tl
corporation's income has been earned in that state. A se
ond state may use the test of tangible property: if 10 p
cent of a corporation's tangible property is located with
one state, that state may consider that 10 per cent of tl
corporation's income has been earned in that state. Th
if all of a corporation's tangible property lies within tl
state which uses the test of property and all of its sales a
made within the state which uses the test of sales, it w
have been subject to tax on twice its taxable income

[1] 78th Congress, 1st Session, Doc. No. 69, pp. 244–245.
[2] Groves, *op. cit.*, p. 494.

ikewise, a railroad, subject to an income, excise, or property tax, may find that a Western state, having within its orders a large quantity of single-track mileage, will use line mileage" as the basis for apportioning the corporaion's property or income. A Midwestern or Eastern state which the same railroad has yards and a large quantity f double track will use "all-track mileage" as its basis of pportionment. In consequence, the railroad may be orced to pay taxes on more than 100 per cent of its ncome or property.[1] Multiple taxation of this sort disriminates against interstate business and such discriminaion, because it conforms to no reasonable public policy, is rbitrary. The application of the property tax to air transort companies may present an equally troublesome probem. Minnesota has recently, for example, attempted to ax Northwest Airlines' entire fleet of planes. If, however, he past behavior of the states is any guide to their future ehavior, they will undoubtedly not accept Minnesota's efinition of situs. And Northwest Airlines will find itself axed on more than its total number of planes.[2]

Some states have partly solved the problem by interstate reciprocal credit arrangements—which, however, are not uniform.

With respect to the individual income tax, some of he states have solved part of the problem by use of the -called "interstate crediting" device. New York State, or example, taxes the income of nonresidents when such ncome is earned in New York, but allows the nonresident deduct from the tax due New York whatever tax he ay have paid in his state of residence—provided the other ate reciprocates. Five states, including New York, allow redits of this sort; five others allow such a credit to resients—*i.e.*, the latter may deduct from the income tax due the state of residence whatever income tax they may ave paid to another state.[3] Plainly, state double taxation f income would be avoided if all the states uniformly dopted either type of credit. But as long as some states se the credit to residents and other states the credit to onresidents, discriminatory taxation of income will perst. Thus a person who works in a state which gives the redit to residents but lives in a state which gives the

[1] Martin, *op. cit.*, p. 66.
[2] See 78th Congress, 1st Session, Senate Doc. No. 69, p. 241.
[3] *Ibid.*, p. 242.

credit to nonresidents will not be entitled to a credit either state.[1]

Multiple taxation of corporate property and income could be avoided by a standard method of allocation;

Likewise, the problem of multiple taxation of co porate property and income arises from the fact that d ferent states use different methods of allocation. And t problem would be dispelled, or at least rendered unimp tant, if all states used the same method of allocation. W. Elliott, by way of facing the problem that states do in f use different methods, has suggested that the states be p hibited from imposing taxes on corporate net inco unless the method of allocation has been "approved b commission created by Federal Act."[2]

or by reservation of taxation of corporate income to the federal government, which could allocate shares to the states.

Robert S. Ford has offered a somewhat broader sol tion of the problem. He has suggested that the corpor income tax be reserved exclusively to the federal gover ment; the proceeds would be shared, in part, by the fe eral government with the states. Ford believes that "su a transference of administration is highly desirable beca it would eliminate the problem of non-uniformity a objectionable double taxation by overlapping jurisd tions."[3] The Treasury Committee on Intergovernmen Fiscal Relations believes, however, that Ford's propo goes too far. This Committee believes that federal (state-federal) administration of state supplements (*i* additions to the federal rate) reinforced by fede deductibility (*i.e.*, amounts paid to states would deducted from the amount due the federal governmen "would provide sufficient implementation to achieve t desired uniformity."[4]

Death Taxes

A similar problem arises in regard to death taxes.

The same type of problem also arises with respect death taxes. For example, various states have, at one ti or another, tried to tax bequests in general on the basis the decedent's domicile; and bequests of corporate secu

[1] See 78th Congress, 1st Session, Senate Doc. No. 69, p. 244.

[2] Proceedings of the National Tax Association 1932, quoted in 78th C gress, 1st Session, Senate Doc. No. 69, p. 250.

[3] R. S. Ford, "Allocation of Corporate Income for the Purpose of S Taxation," Special Report to the New York State Tax Commission, No. 6, 1 p. 121; quoted in 78th Congress, 1st Session, Senate Doc. No. 69, p. 250.

[4] 78th Congress, 1st Session, Senate Doc. No. 69, p. 250.

ies on the basis of corporate domicile, on the basis of the ocation of the corporate property, and on the basis of the place where the securities themselves are actually deposted. Some, but not all, of these jurisdictional claims were leclared in early decisions of the Supreme Court to be unconstitutional; and until recently corporate securities and most other intangible property could be taxed only by the state wherein the decedent resided; and real estate and tangible personal property having a fixed status could be taxed only by the state where such property is located.

Confusion has once again been brought to the field of death taxation, however, by the decision of the Supreme Court in *State Tax Commissioner of Utah v. Harkness.*[1] In this case Utah had asserted the right to tax a bequest of certain corporate securities on the ground that it (Utah) had chartered the corporation which had issued the securities. Although the decedent in question was not a resident of Utah, the Court upheld Utah's assertion. In effect, the decision means that the same intangible property can be taxed by as many states as can plausibly support their claims. What precise content is to be given to the word "plausibly" will probably be decided in future decisions of the Court.

Court decisions have indicated that estates or bequests in corporate securities are not legally protected against multiple taxation.

Mr. Justice Douglas, speaking for the Court in the Utah case, said: "Even though we believed that a different system should be designed to protect against multiple taxation, it is not our province to provide it." In a concurring opinion, Mr. Justice Frankfurter stated that "each state of the Union has the same taxing power as an independent government except insofar as that power has been curtailed by the federal Constitution." And none of the limitations put upon the states "touches the power of a state to create corporations and the incidental power to tax opportunities which such state-created corporations afford. . . . The exercise by the states of their constitutional power to tax may undoubtedly produce difficult fiscal and political problems. But they are inherent in the nature of our federalism and part of its price." In a dissenting opinion Mr. Justice Jackson argued that the majority had given inadequate consideration to the impact of its decision "on

[1] 10 *U. S. Law Week,* No. 421, Apr. 28, 1942.

Nor are cases of "disputed domicile" of decedents fairly adjustable without reciprocal legislation among the states to permit reference to a federal court.

the very practical and concrete problems of states ar taxpayers." And the action of the Court creates "doub whether any legal limitations are hereafter to be reco; nized" on the power of the states to tax.

Multiple taxation in the death tax field also occu in the case of so-called "disputed domicile." This w brought to the attention of the public in the Dorran case. Pennsylvania and New Jersey each argued that it w the state where the decedent lived and both states su ceeded in taxing the same intangible assets. The main el ment in determining domicile is the intent of the deceden and the latter is often very difficult to establish. Tl Supreme Court has refused to arbitrate cases of this so and has held that "uniformity in the decisions of the cour of different states as to the places of domicile" is n required by the Constitution.[1] In a report on "Doub Domicile in Inheritance Taxation," the National Ta Association has recommended reciprocal legislation amon the states under which the latter would agree to be sue on questions of disputed domicile, in the United Stat District Court of the District of Columbia.[2]

Overlapping Sources—Federal, State, and Local

A problem which is perhaps more serious than di criminatory taxation or tax competition among the stat arises from the fact that the federal government and tl states (and occasionally also the localities) have come i recent years to use the same tax sources.

No serious overlapping of sources of revene used by various units of government occurred before World War I.

Up to the beginning of the Civil War the feder government obtained most of what revenue it neede from customs duties and the sale of public lands. In 186 under the pressure of war emergency, income taxes and wide range of excises were imposed and, although tl former had been abandoned by 1870, the latter were fc the most part retained. But despite its post-Civil War u of excises the tariff continued to be the main reliance c the federal government. During the same period the stat

[1] *Worcester County Trust Company v. Reley*, 302 U. S. 292 (1937).

[2] Proceedings of the National Tax Association, 1940. See 78th Congre 1st Session, Senate Doc. No. 69.

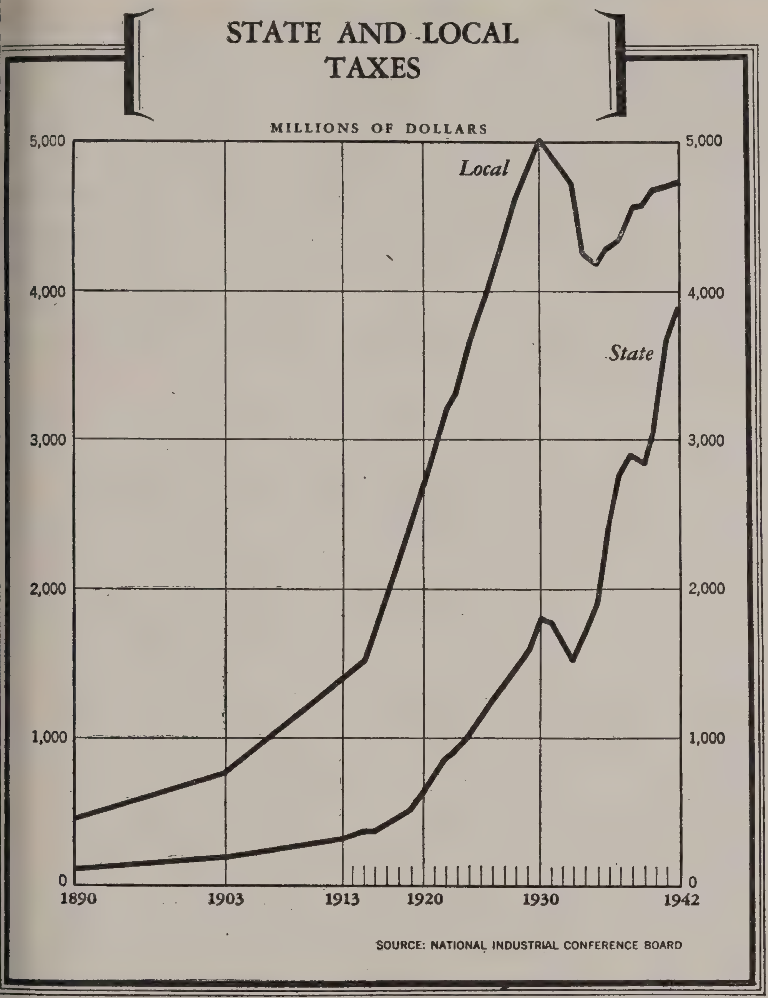


Chart XI

elied mainly on the general property tax. This separation f sources continued almost to the beginning of World Var I, and therefore no conflict existed between the fedral government and the states. The federal government onfined itself to sources which the states were not allowed o use (customs) or had never seen fit to use (excises). At the same time, the main reliance of the states, the genral property tax, was neither needed by the federal overnment nor available to it.

But in the early years of the twentieth century the tates began to find the property tax inadequate, and they ought therefore to develop supplementary sources of

About that time, however, the states began to find the property tax inadequate, while the federal government also began to broaden its sources of revenue.

revenue. Simultaneously, the federal government, par under the pressure of the emergency created by Wo War I and partly for other reasons, began to broaden revenue system. In consequence the federal governme and the states (to borrow a figure from Robert Murr Haig) soon found themselves fishing in the same stream Likewise, the municipalities, which during the depressi bore an increased burden of relief and other expenditur have sometimes been forced to exploit the same sourc being simultaneously exploited by the federal governme and the states.

Tables show the extent of overlapping that has now developed.

Extent of Overlapping

Tables 2 and 3 show the extent to which feder state, and local governments now rely on overlappi

TABLE 2.—NUMBER OF STATES USING REVENUE SOURCES LIKEWISE USED BY TH FEDERAL GOVERNMENT, AS OF 1941[1]

Tax	Number of states	Extent of municip overlapping
Corporation net income	32	None
Individual net income	33	[2]
Death taxes	47	None
Gift taxes	12	None
Alcoholic beverages	48	[3]
Motor vehicle	48	[4]
Motor fuel	48	[5]
Stock transfer	6	None
Tobacco	39	[6]

[1] Does not include capital stock, corporate excess, or franchise taxes. See Table 3, Miscellaneous Corporations.

[2] Philadelphia.

[3] Local vendors' licenses widely used. New Orleans and a few other localities impose excises.

[4] General in Alabama, Arkansas, Georgia, Illinois, Kentucky, Missouri, Nebraska, North Carolina, Tennessee, Virginia.

[5] Parts of Alabama, Mississippi, Florida, Missouri, Nebraska, New Mexico, Wyoming.

[6] Birmingham, Denver, Kansas City (Mo.), St. Louis, and many Florida cities.

SOURCE: "Federal, State, and Local Government Fiscal Relations," 78th Congress, 1st Session, Senate Doc. No.

sources. Table 2 indicates the number of states (as 1941) which, respectively, tax corporate and individu net incomes, inheritances, gifts, liquor, and tobacco (a of which are sources of revenue for the federal govern ment). Minor overlapping occurs in the case of stock transfer and motor-vehicle taxes. Table 3 summarizes th

[1] R. M. Haig, "The Coordination of Federal and State Tax Systems National Tax Association Proceedings, 1932, p. 223.

TABLE 3.—FEDERAL, STATE, AND LOCAL REVENUES FROM OVERLAPPING SOURCES, FISCAL YEAR 1941

Tax	Amount of revenue, millions of dollars			
	Total	Federal	State	Local
eath and gift	529	407	121	1
orporation income	2,245	2,053	190	2
ndividual income	1,671	1,418	233	20
obacco	805	698	107	...
lcoholic beverages	1,192	820	337	35
fotor-vehicle licenses	441	*	417	24
fotor fuel	1,264	343	914	7
tock transfer	24	12	12	...
fiscellaneous corporations	415	167	208	40
ay rolls	1,899	993	901	5
Total overlap	10,485	6,911[1]	3,440	134
Total taxes	16,986	7,818	4,562	4,606

* Federal use tax went into effect Feb. 1, 1942 (for war period).
[1] This figure overstates overlap because some states do not levy all taxes imposed by federal government.
SOURCE: "Federal, State, and Local Government Fiscal Relations," 78th Congress, 1st Session, Senate Doc. No. 69.

mount of revenue derived (as of 1941) from overlapping ources by the federal, state, and local governments. This able indicates that of total federal tax revenues of 7,818 nillion dollars for 1941, 6,911 million (88.4 per cent) vas obtained from sources which were being used by the tates and localities. From these same sources the states xtracted 3,440 million dollars or 75.4 per cent of their otal tax and fee revenues. In addition, the local governnents (cities, towns, etc.) raised an additional 134 million rom sources used by the federal government and the tates. It should be pointed out that the above figures omewhat exaggerate the extent of overlapping; although he taxes of the federal government are of course levied in ll states, not all states levy all the taxes levied by the ederal government. For example, only 39 states levy obacco taxes and in the other 9 states no overlapping, of ourse, occurs. The figure indicated in Table 3 for revenue rom the federal tobacco excise includes revenue raised in he 9 states which do not themselves tax tobacco. The ther totals may likewise include some federal revenue aised in states which do not use the tax in question and in

which therefore no overlapping occurs. Despite this qua-fication, the extent of overlapping remains considerab.

Problems Created by Overlapping

The problems created by overlapping sources f revenue have been concisely summarized by Herbt Hoover and by Ogden L. Mills. Hoover has remarkd that "the many provisions of multiple taxation vary o much that a taxpayer coming under several jurisdictios may find himself paying a wholly unreasonable amout for the support of government. [We should] give renewd examination to the subject in the light of conditions tody and consider the possibilities of beter coordination, greatr simplicity, and, above all, better adjustment of the bu-dens among the people."[1]

Mills has remarked that "our present system f taxation, if it can be called a system, is permeated wi inequity, uncertainty, and administrative difficulties; te cost of collecting taxes is much too great, as is also the co to the taxpayer in determining his tax liability and in fu-nishing the tax collector with the information requird for the same purpose. We have too much tax competitio, too much litigation and dispute. We are sorely in need simplification and uniformity. We need a much great degree of cooperation and coordination in the framing fiscal policies."[2] In addition, Herbert Lehman, when was governor of New York, pointed out that when t federal government and the states levy income taxes t possibility arises that a taxpayer in the higher bracke may find that his tax liability exceeds his income.[3]

The main problems created by overlapping of revenue sources are duplication of

In brief, then, the main problems created by t overlapping of federal and state sources are:

1. *Duplication of administrative machinery.* Th means a waste of government resources and, therefore, higher than necessary cost of government. Table 2 ind cates that 32 states support the administrative machine

[1] Address before the Conference of Governors, April 1932.

[2] O. L. Mills, "Financial Relations of the Federal and State Government Address before the Bar Association of New York City, Apr. 29, 1943, *Bulletin National Tax Association,* Vol. XVII, No. 8, May 1932, p. 226.

[3] Speech before the Conference of Governors, Sept. 14, 1937; quoted *The Watch Dog,* National Economy League, October 1937.

equired to enforce corporate income taxes. Similar dupliation exists with respect to the other overlapping sources f revenue.

2. *A high cost of compliance to the taxpayer.* Many orporations must pay taxes not only to the federal govrnment but also to those states in which they do business. This means that some corporations must pay taxes in all 8 states. A study made in 1935 indicated that (as of 934) the cost of compliance with state corporation taxes as 9.5 per cent of the tax (median for a group of 76 cororations); and the cost of compliance with the federal orporation income tax was 4.7 per cent of the tax median for a group of 95 corporations).[1] The highest ost of compliance is, of course, borne by those firms hich engage in business in many states. Such firms must ll out a large number of tax forms and face the intricate roblem of determining which part of their income is ubject to which taxing jurisdiction.[2]

3. *Too much taxation.* This, however, is essentially problem of expenditures; *i.e.,* if either the federal govrnment or the states or both cut their expenditures harply, some return might be possible to the traditional eparation of sources.

administrative machinery, high costs imposed on the taxpayers, and an excess of taxation.

roposals

Various suggestions, none of them wholly satisfacory, have been made by way of meeting the problems ndicated above.

Separation of sources. The federal government ould be assigned the exclusive right to exploit, for xample, the income tax; and the states, the exclusive ght to exploit, for example, the property tax. This proosal would avoid the waste of duplicate administrative achinery but might leave the states with sources of evenue inadequate to meet the costs of the functions they resently administer.[3]

Suggestions for meeting these problems include separation of sources, according to various formulas;

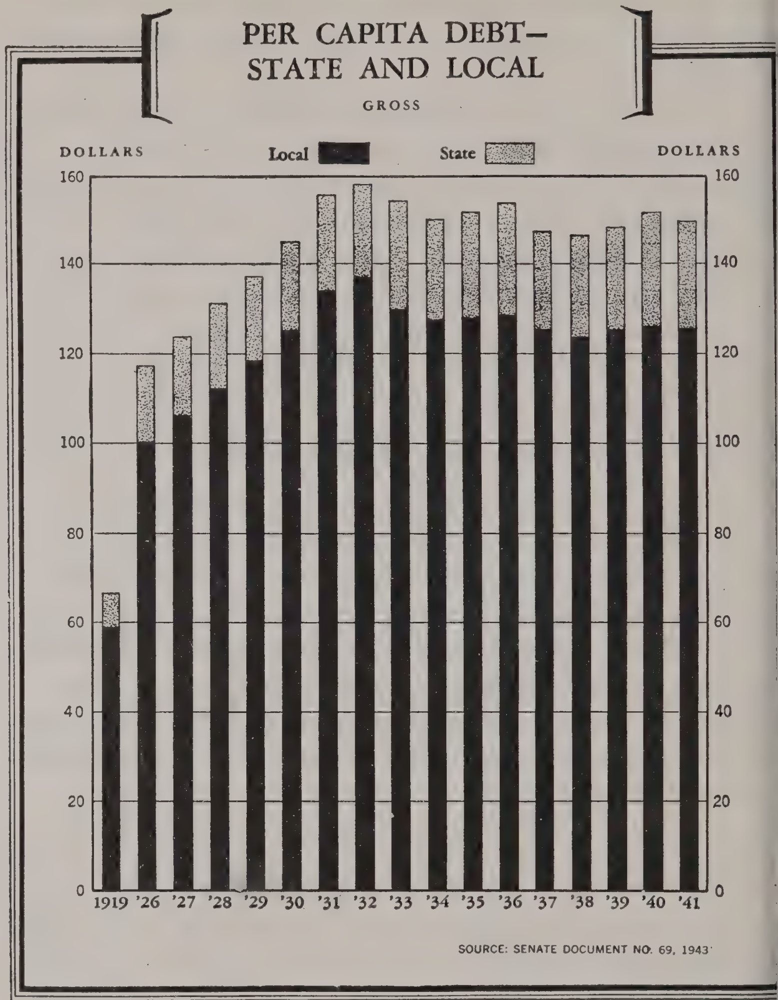
A detailed proposal for separation of sources has

[1] R. M. Haig, "The Cost to Business Concerns of Compliance with Tax aws," Vol. 24 *Management Review,* No. 11, pp. 322–333.

[2] Twentieth Century Fund, *Facing the Tax Problem,* p. 542.

[3] Haig, *op. cit.,* p. 229.

Chart XII



recently been made by the Subcommittee on Taxation c the Railroad Committee for the Study of Transportation. This committee takes as its basic guiding principle tl precept that "the same sources, whether property, incom sales, or corporate franchise and business, should not l attacked more than once by more than one taxing authoi ity." (Presumably, the committee considers the feder: government to be "one taxing authority," and the stat *together* to be "one taxing authority.") On the basis c the above precept and certain other criteria (mostly hi: torical), the committee suggests the following separatio

[1] April 1944, pp. 20–23.

f sources. The individual and corporate income tax, the eath tax, the gift tax, and the excises on alcohol and obacco should be given exclusively to the federal government. Should these sources of revenue prove inadequate to ederal needs, the committee suggests the use of a federal tax n *interstate* sales. On the other hand, the retail sales tax, ne motor-vehicle taxes, the motor-fuel tax, the stock-ansfer tax, and business taxes other than taxes on net come should all be reserved to the states. An earlier disussion of the same problem by Fred Rogers Fairchild esulted in somewhat different conclusions. Fairchild alloted the income tax to the federal government and non-come business taxes to the states, but suggested that the eath tax and the sales tax "with some few exceptions, ich as the gasoline tax,"[1] be reserved to the states.

Shared sources. This proposal implies independent ederal and state taxes on the same sources at reasonable tes on uniform bases. States, in taxing corporate income, ould *all* use the test of sales or *all* the test of tangible operty, and so forth. This technique would eliminate scriminatory multiple taxation and, except for duplicate lministrative machinery, would, its proponents believe, no more harmful to the taxpayer than a single tax hich produced the same amount of revenue.[2]

or sharing of sources, but on uniform bases, with or without single administrative machinery for each type of tax;

Uniform base, single administration. As above, uni-rm bases would be defined (and the problem of dis-iminatory multiple taxation thus eliminated). Each risdiction would be free to set its own rates but adminis-ation and collection would be in the hands of the federal vernment for some taxes (*e.g.*, income) and in the nds of the states for other taxes (*e.g.*, property). The ates, if they agreed to a proposal of this sort, would sacri-e some independence no matter how willingly the crifice was made.

The crediting device. This device has been used by e federal government with respect to death taxes and ie of the pay-roll taxes. The taxpayer is allowed, subject

or a crediting device applied to all sources

[1] "The Impact of Federal Taxation on State Finances," National Tax sociation Proceedings, 1936, pp. 284–288.

[2] Twentieth Century Fund, *Facing the Tax Problem*, 1937, p. 371; and Groves, *op. cit.*, pp. 500–504.

used by more than one unit of government;

to certain limitations, to deduct from his federal ta otherwise payable, the amount of tax paid to the stat In effect, this device allows any state to levy a death pay-roll tax up to the amount credited without imposi any added burden on the taxpayer. In effect, that is, t state merely takes part of the revenue which otherw would have gone to the federal government. This devi does not meet the problem of dual administrative machi ery or high cost of compliance. It merely makes the t more or less uniform over the area controlled by the go ernment granting the credit.

or administration and collection of all taxes centrally, with apportionment of revenue in one way or another.

Central administration of all taxes. All taxes wou be administered and collected by the central unit. T revenue would either be shared with the local units (fix percentage of yield), or returned to them in the form grants-in-aid. This device eliminates duplicate admini trative machinery, high cost of compliance, and discrim natory multiple taxation; but it introduces substant problems of other sorts. The subordinate governmen would, typically, surrender a large degree of control ov expenditures and, in addition, would lose all control ov the source and amount of their income.[1]

Municipal Sources of Revenue

Municipalities are left with the general property tax as their main reliance for revenue while confronted with increasing expenditures.

Table 4 indicates what has been called the "financi plight of the municipalities." Since 1932 current expend tures for our 10 largest cities have risen by 19 poin assessed valuations have declined by about 19 points, a revenue from the property tax—the main reliance of t municipalities—has risen 11 points. In short, expenditur have risen markedly, and a large part of the increas burden has been placed upon property owners—despi the fact that the value of property has declined. In t presence of rising expenditures and limited tax sourc the attitude of municipal officials has grown increasing critical. One has said that "in the field of taxation t city is practically powerless." Another complains th "municipalities are facing a postwar period when lo

[1] Twentieth Century Fund, *Facing the Tax Problem,* p. 373.

TABLE 4.—INDEXES OF CURRENT EXPENDITURES, ASSESSED VALUATIONS, AND PROPERTY-TAX REVENUES FOR THE 10 LARGEST CITIES IN THE UNITEDSTATES, 1925–1939
(1926 = 100)

Year	Current expenditures	Assessed valuations	Property-tax revenue
1925	93	93	92
1926	100	100	100
1927	107	115	106
1928	115	120	113
1929	121	125	108
1930	129	130	116
1931	136	130	123
1932	134	124	111
1933	131	114	102
1934	132	106	109
1935	135	103	124
1936	140	102	112
1937	144	102	121
1938	152	105	125
1939	153	*	122

Not available.
OURCE: Table from Edwin H. Spengler, "Preliminary Report on Urban Financing," unpublished manuscript pre-
d for the National Resources Planning Board and in consultation with the staff of the Committee on Intergovern-
tal Fiscal Relations.

vernments will find it necessary more and more to go the central government for federal assistance."[1]

Hillhouse summarized the situation in the following ay: "State and federal governments have taken the more crative sources of revenues, while cities have largely d to worry along with the general property tax. The sult is that some of our most important governments n terms of size and services rendered) are without adeiate revenue sources. This is intolerable. The local units ld the least desirable position in the total tax system. mited in area and jurisdictional tax powers, they cannot ll administer sales, gasoline, income, inheritance, and her taxes; and unfortunately they must still look largely the state governments for their taxing powers."[2] As indited in the section on Overlapping Sources, some cities

Yet, in terms of size and services rendered, some municipal governments outrank many states.

[1] See 78th Congress, 1st Session, Senate Doc. No. 69, p. 403.

[2] A. M. Hillhouse, *New Sources of Municipal Revenue*, Municipal Finance icers Association, 1935, p. 1–2; quoted in 78th Congress, 1st Session, Senate Doc. . 69, p. 403.

Use of other sources of revenue may pile taxes "three deep."

have been able to develop diversified sources of revenu New York and New Orleans have used sales taxes; Phil delphia, a flat earned-income tax; Louisville and Richmon a license tax based on volume of business; Birminghar gasoline, beer, and cigarette taxes; and Kansas City, gas line, automobile, and cigarette taxes. But the use of the sources involves in many cases "piling taxes three deep and further complicates an already highly complicat revenue system.[1]

Proposals

A Treasury committee has offered suggestions, which include:

The narrow jurisdiction of the municipalit requires the latter to depend on a *relatively immobile ta base* for the largest part of its revenue. Sales, use, incom and inheritance taxes create the possibility that the res dents of a municipality may buy elsewhere or shi residence, and this points to the continuance of a lar burden on real estate. The Treasury Committee on Inte governmental Fiscal Relations suggests that what is neede is some new source of local revenue which will (1) n overlap federal and state sources, (2) cover all or mo municipal citizens, and (3) not be regressive.

dividing property taxes between landlords and tenants;

using gross rental value as base;

adding unearned increment taxes, and using special assessments more;

In general, the Committee makes the following sug gestions, some of which would merely involve the mo thorough exploitation of sources being currently used

1. Break the property tax into two parts: one a colle tion from landlords, and the other a collection fro tenants on the rental value of occupancy.
2. Shift part of the burden from property to the gro rental value of occupied premises. This would gi some relief to those property owners whose propert yields no current income.
3. Use unearned increment taxes, and rely more on t special assessments. The latter have sometimes bee overworked but many cities, the Committee believe have failed to exploit their full possibilities.
4. The state should not limit the rate at which munic palities may tax local property.

[1] 78th Congress, 1st Session, Senate Doc. No. 69, p. 405.
[2] *Ibid.*, pp. 409–413.

5. Eliminate property tax exemptions.
6. Improve assessments of property and tighten administration of the property tax.
7. The federal government should increase the number of functions to which it contributes through grants-in-aid. The Committee is, in part at least, aware of the pitfalls which grants (and likewise shared revenues) bring and the limitations to which they are subject.
8. Federal payments in lieu of property taxes on federally owned property should be larger.
9. As a last resort, use the retail sales tax with an exemption for food.

removing exemptions; using more grants-in-aid; using retail-sales tax, with exemption for food.

Trade Barriers[1]

Trade barriers have occasionally been defined as te statutes or regulations which tend "to operate to the advantage of persons, products, or services" coming om other states and "to the advantage of local residents, oducts, and business." This definition is broad enough to clude multiple taxation and high cost of compliance iscussed above), and more usually, therefore, the term rade barrier" is confined to legislation which operates, the manner of a tariff, to the advantage of home indus- and to the disadvantage of outside industry. Tax vices which fall in this classification are, for example, cises on the sale of oleomargarine; taxes on imported uor; ton-mile and license taxes on trucks owned outside state; chain-store taxes; and use taxes which make no owance for sales taxes in the state where the goods were ught. In addition, many states use nontax devices such subsidies to home industries and direct restrictions on importation of intoxicating liquor and prison-made ods.

Trade barriers between states include many tax devices, besides subsidies to home industries and restrictions on importations.

tent of Trade Barriers

The Marketing Law survey of the Works Progress ministration, done in 1939, revealed as a preliminary

A survey in 1939 revealed

[1] This section is based on material in 78th Congress, 1st Session, Senate Doc. 69, pp. 252–268.

1,500 restrictive laws in this category.

estimate some 1,500 restrictive laws of all sorts. The la fall into the following classes: motor vehicles, 301; da products, 209; oleomargarine, 245; livestock and gene food, 138; nursery stock, 145; use taxes, 109; gene preference, 113; commercial fishing, 35; and insuran 69.[1] The extent to which such barriers actually imp interstate business is not known, but some interested in viduals have expressed considerable alarm. A state co missioner of agriculture, for example, has said that "eitl the people of the several states will come to their sen and recognize that we have a union of 48 states or th will be drastic demands for federal control over th matters."[2]

The two sections below on oleomargarine and alc holic beverages do not by any means exhaust the subj of interstate trade barriers. The two sections are mer illustrative. Other fields in which discriminatory taxati creates significant obstacles to interstate trade are mo vehicles and insurance.

Oleomargarine

The margarine taxes imposed by about half of the states produce little revenue but obstruct trade in margarine.

About one half of the states impose margarine tax These include both specific excises (from 5 to 15 cent pound) and license taxes on manufacturers, dealers, a "importers." Some states extend a statutory preference margarine which contains specified proportions of dom tic crops. For example, Maine and the cotton belt stat except Mississippi and Oklahoma, exempt margarine fr taxation when it contains cottonseed oil, corn oil, pear oil, etc.; and cattle states such as Minnesota, Nebraska, a Wyoming tax margarine unless it contains 65, 50, or per cent, respectively, of animal fats or oils.

The margarine taxes, on the whole, raise little re nue, and their principal effect has been to obstruct t movement of margarine across state lines. In 1939 W consin and South Dakota obtained $20 each, and Ok homa $52 from margarine taxation. During the same y

[1] P. T. Truitt, "Interstate Barriers among the States," *Law and Con porary Problems*, Vol. 8, No. 2, p. 213; quoted in 78th Congress, 1st Session, Se Doc. No. 69, p. 253.

[2] Quoted in 78th Congress, 1st Session, Senate Doc. No. 69, p. 254.

ly Iowa, Utah, and Pennsylvania obtained as much as ie tenth of 1 per cent of their total revenue from this urce.

lcoholic Beverage Taxes

Alcoholic beverage taxes are used by many states to give preference to local industries or to offset preferences given by other states.

Many states give preferential treatment to locally oduced alcoholic beverages, and some states give prefertial treatment to one state as against some other state. ie type of preferential treatment involves different tax eatment of products made partly or wholly from cally produced raw materials. Michigan, for example, xes wine manufactured from "foreign" products at the te of 50 cents a gallon; but wine made in the state from oducts 75 per cent or more of which have been grown the state is taxed only 4 cents a gallon. In Arkansas the ne tax of 50 cents a gallon does not apply to wines which ve been domestically made. Further, some 25 states do t tax at all or tax at relatively low rates alcoholic beveres produced for "export" to other states. In addition, ose states which feel that their products have been scriminated against have passed retaliatory statutes— iong them Connecticut, Ohio, Pennsylvania, and orida. Pennsylvania, for example, imposes taxes and fees out-of-state beer to the extent that the state from iich the beer comes discriminates against Pennsylvania er.

With respect to this interstate battle the Departent of Agriculture has said:

> Each state should be permitted to control the consumption and of alcoholic beverages within its own borders whether such beveres are produced within the state or in some other part of the country. the question arises whether states should be permitted to enact islation favorable to local products or to in-state distributors or ducers. Neither for the protection of public morale nor for the ancement of the economic welfare of the whole country does such crimination seem justified.[1]

nclusion

In summary, overlapping of

The overlapping of taxation between federal, state, d local governments is one of the most serious and baf-

[1] "Barriers to Internal Trade in Farm Products," p. 35, quoted in 78th gress, 1st Session, Senate Doc. No. 69, p. 258.

taxation arises from increases in expenditure at all levels of government.

fling in the whole field of government. The facts of ove lapping and the numerous proposals for dealing with t problem have been outlined here in considerable deta No crystal-clear answer to the problem is available, but few essential facts may be pointed out:

State legislatures can deal with overlapping between state and local units. Congress must handle overlapping between federal and state or local units.

1. Most of the overlapping and conflict between t various taxing units arises from the increase in expend ture of all layers of government.

2. The need for revenue of various government units has forced them to invade each other's territory.

3. Problems of overlapping of taxation betwe state and local units must be solved by state legislatur

4. Problems of the invasion of state and local t fields can be solved only by a revamping of federal t laws and this must be left to Congress. The governors the states by joint action can do much to bring the pro lem to the attention of Congress and assist in its solutio

PART VI. GOVERNMENT CORPORATIONS[1]

Use of the corporate device by the federal government has concealed large government transactions and expenditures, imposes large burdens on taxpayers, and may be used to modify our competitive enterprise system.

The corporate device as currently used by the fe eral government deserves attention for several reaso (1) The device has had the effect of concealing lar government transactions and expenditures. Typicall government corporations draw on the Treasury only f their initial capital. Typically also government corpor tions have been given substantial borrowing power. Th the volume of their transactions is limited in many ca only by the speed with which they can turn over capi and borrowed funds. And because they draw on t Treasury only for initial capital, no record of these tra actions is to be found in the federal budget. (2) So persons have argued that the assets of government corp rations are fully recoverable and that therefore, wh finally liquidated, they will prove to have been no burd on the taxpayer. Some doubt exists, however, that t assets of government corporations are in fact fully reco erable, and we must be prepared therefore to confront t possibility that they will ultimately impose a large burd on the taxpayer. And action should perhaps be tak

[1] For basic tables, see Appendix E, pp. 1061–1081.

[w]hich will keep this burden to a minimum. (3) Some pro[p]onents of the government corporation have suggested [th]at the device might be used to modify the competitive [sy]stem. Concretely, these individuals have suggested that [g]overnment and private business operate together through [th]e medium of the mixed corporation, in steel, aluminum, [an]d other basic industries.

This device, in modern form, was first used by the federal government in World War I.

The corporation was first used as a device of federal [fi]nance during World War I. In 1917 and 1918, in order [to] meet various aspects of the war emergency, Congress [au]thorized the creation of the U.S. Shipping Board Emer[g]ency Fleet Corporation (1917), the U.S. Grain Corpo[ra]tion (1917), the War Finance Corporation (1918), the [U].S. Housing Corporation (1918), the Sugar Equaliza[ti]on Board (1918), the U.S. Spruce Corporation (1918), [an]d the Russian Bureau, Incorporated (1918).[1] After the [ar]mistice, however, most of these corporations were placed [in] liquidation and on the whole the use of the corporate [d]evice by the federal government lapsed. From the end of [th]e war through 1931 only two government corpora[ti]ons were organized: the Federal Intermediate Credit [B]anks (1923) and the Inland Waterways Corporation [(]1942).[2]

It has had its greatest use more recently. Since 1931, 30 government corporations have been organized.

Since 1932, however, the government corporation, [pa]rtly because of the depression and partly for other rea[so]ns, has had a most impressive growth. More than 30 [go]vernment corporations have been organized since [D]ecember 1931. Some 12 of these were war corporations, [pr]esumably temporary. The others, however, were not [w]ar corporations and pressure will undoubtedly be exerted [to] continue them.

As the war drew toward its close, the recommenda[ti]ons of a Congressional joint committee regarding gov[er]nment corporations resulted in a Government Corpora-

[1] The Federal Land Banks were organized in 1917.

[2] The federal government owned part of the stock of the First and Second [Ba]nks of the United States (1791, 1816) and the Confederation owned part of the [sto]ck of the Bank of North America (1782). In 1904, the federal government [acq]uired (and still owns) all the stock of the Panama Railroad Company. These [sto]ck acquisitions are not, however, essentially related to the present trend. As indi[ca]ted above, the widespread use of the corporation as a device of federal finance [beg]an during the first World War.

Late in 1945, a law was enacted making government corporations accountable to Congress.

tion Control Act, which after some months of discussio became law Dec. 6, 1945. It declared "the policy of tl Congress to bring government corporations and the transactions and operations under annual scrutiny by tl Congress and provide current control thereof." Eac wholly owned government corporation (41 specificall named) was required to submit annually to the Presider through the Bureau of the Budget a complete financi statement and estimates, which would then be transmitte to Congress as a part of the annual budget, with suc modifications as the President might make in the corpor tion's budget program; and the financial transactions such corporations would be audited by the Gener Accounting Office.

However, some special privileges of such corpor tions were not removed, and the powers of TVA specif cally were not reduced. The financial transactions of go ernment corporations of mixed ownership (specificall the banks for cooperatives, land banks, and FDIC) we brought under the scrutiny of the GAO. Among add tional provisions were that the bank accounts of the co porations (with a few exceptions) should be kept wi the Treasury or in depositories approved by the Treasur that obligations of the United States or guaranteed by tl United States in excess of $100,000 at any one time ma not be sold or purchased by a government corporatio without the approval of the Secretary of the Treasur and that government corporations, on or before June 3 1948, shall take steps toward dissolution, unless reinco ported by act of Congress prior to that date.

Despite the fiscal importance of government corp rations, despite the seriousness of the problems they creat and despite the highly controversial character of the issu they raise, information about them has been difficult obtain. And until the recent appearance of the By report[1] no competent systematic study of them had bee made. We now have, however, the Corporation Suppl ment to the 1947 Budget of the U.S. government (M 1946), which presents for the first time the business-ty

[1] Report on "Government Corporations," Joint Committee on Reduct of Non-essential Federal Expenditures.

udgets of all wholly owned corporations, as contemplated
ı the 1945 act.

We aim in this section to discuss the characteristics f government corporations, explain why they have been sed, and bring together and analyze facts bearing on their nancial activities, discretion, and accountability.

rowth and Scope

There are 46 government corporations (and agencies operating likewise) listed here, all engaged in business activities.

The number of corporations in which the federal overnment held all or part of the capital stock increased om 6 in 1920 to 35 in 1943. For two reasons, however, ıe latter figure is not exact: (1) The number varies, epending on the way in which the government corporaon is defined. The definition may or may not be made to clude certain corporations which are not engaged in solled "business" activities: for example, the American ed Cross, the National Academy of Sciences, the Textile oundation, Inc., Howard University, and others. Corpotions of this latter type are not included here. (2) Until cently, new corporations were being created by the econstruction Finance Corporation under its war pows, and by the Coordinator of Inter-American Affairs. ıe existence of such corporations is very often discoved, even by people inside the government, only by accint. In testifying before the Joint Committee on eduction of Non-essential Federal Expenditures, Lindsay arren, the Comptroller General of the United States, mitted that he had, for example, never heard of Cargoes corporated.[1] The latter was privately incorporated in 41 and taken over by the RFC in 1942 for the purpose experimenting with various methods of shipping lendıse goods. But, as will be seen below, a number of governent bodies and agencies, although they do not use the vice of capital stock, closely resemble government corrations in most significant respects; that is, they operate the same way and therefore raise the same problems. ıose bodies and agencies which operate in the same way d raise the same problems as government corporations

[1] Hearings before the Committee on Reduction of Non-essential Federal penditures, Part 7, p. 2254.

have been included here. A complete list of the corpo tions and agencies (46 in number) covered by this sect is given below.[1] Further detail on them will be found Appendix Table E-20.

Capital Stock, Assets, and Size

Assets of government corporations amounted in 1944 to about 30 billion dollars, an increase of over 600 per cent since 1933.

Capital stock owned by the United States in gover ment corporations increased from 398.3 million dollars 1920 to 2,248.0 million in 1943.

As of May 31, 1944, government corporations total assets of 29,850 million dollars after the eliminat of intercorporate assets.[2] In 1933, the earliest date which such figures are available, assets of government c porations were 4,220 million dollars. Assets held by g ernment corporations had thus increased since 1933 607 per cent.[3]

Individual corporations, however, vary widely size. The Tennessee Valley Associated Cooperatives (1 to be confused with the Tennessee Valley Authorit

[1] Banks for Cooperatives, Commodity Credit Corporation, Federal C Insurance Corporation, Federal Farm Mortgage Corporation, Federal Intermec Credit Banks, Federal Land Banks, Federal Surplus Commodities Corporation, duction Credit Corporations, Regional Agricultural Credit Corporations, Dis Loan Corporation, Export-Import Bank of Washington, Inland Waterways Corp tion, Reconstruction Finance Corporation, Federal National Mortgage Associa Virgin Islands Company, Federal Prison Industries Inc., Federal Home Loan Ba Federal Housing Administration, Federal Public Housing Authority, Federal Sav and Loan Insurance Corporation, Home Owners' Loan Corporation, Federal De Insurance Corporation, The RFC Mortgage Company, Panama Railroad Comp Tennessee Valley Associated Cooperatives Inc., Tennessee Valley Authority, Maritime Commission, War Shipping Administration, Rural Electrification Adı istration.—The following additional World War II corporations: Defense P Corporation, Defense Supplies Corporation, Metals Reserve Company, Petrol Reserves Corporation, Rubber Development Corporation, Rubber Reserve Comp United States Commercial Company, War Damage Corporation, Cargoes Incorpor Institute of Inter-American Affairs, Institute of Inter-American Transporta Inter-American Navigation Corporation, Smaller War Plants Corporation, Def Homes Corporation.—The following World War I corporations: United States Sp Production Corporation, United States Housing Corporation.

[2] The RFC has, for example, bought capital stock in and lent funds number of other government corporations. The funds thus disbursed are reco as assets on the RFC's balance sheet—stock held and loans—and also as assets the balance sheet of the debtor corporations—for example, as cash. In estima *total* net assets of government corporations this duplication must be eliminated.

[3] Figures from the Annual Reports of the Secretary of the Treasury daily Treasury statement.

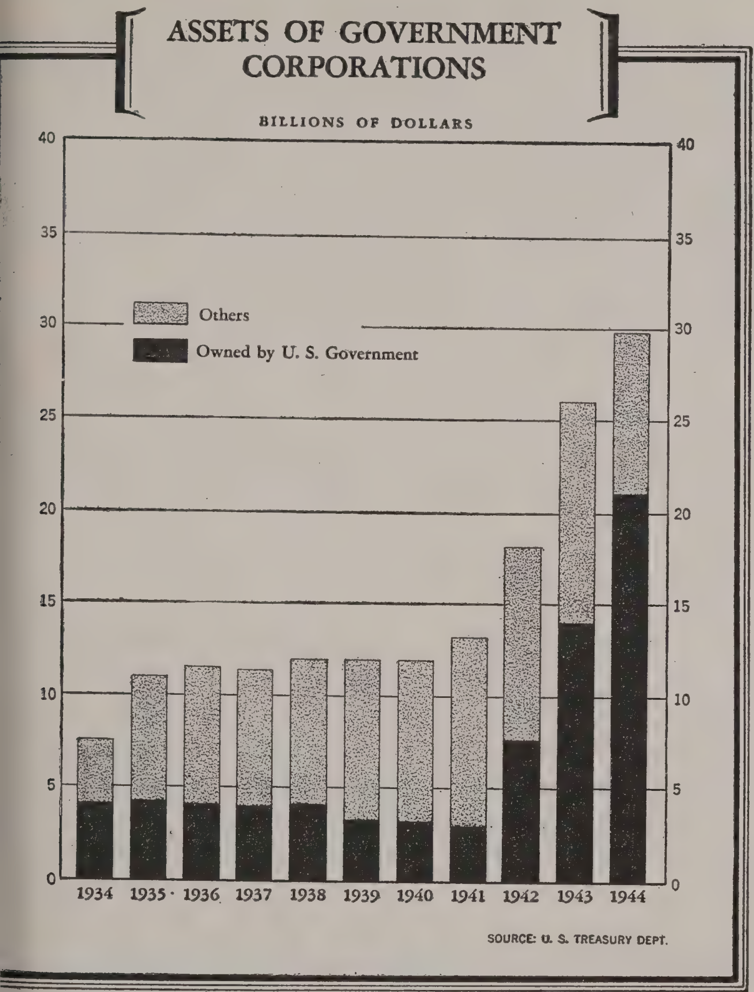


Chart XIII

ganized in 1933 for the purpose of encouraging coopera-
/es, had as of May 31, 1944, assets of $300,000. The
econstruction Finance Corporation, the largest of the
vernment corporations, had assets as of Mar. 31, 1945,
10.5 billion dollars.

Table 5 describes the size distribution of assets of
vernment corporations in 1944. By the test of assets
nost all of them were "large." Thirty-five had assets of
ore than 10 million dollars. Twenty-nine had assets in
cess of 50 million. Eighteen had assets in excess of
0 million and seven had assets in excess of 1 billion
llars.

TABLE 5.—SIZE (BY ASSETS) OF GOVERNMENT CORPORATIONS (1944)

Assets	Number of Corporat
Under 10 million dollars	8
10–19.9 million dollars	2
20–49.9 million dollars	4
50–99.9 million dollars	5
100–199.9 million dollars	6
200–499.9 million dollars	6
500–999.9 million dollars	5
1–1.9 billion dollars	4
2–4.9 billion dollars	1
5–10 billion dollars	2
Total	43[1]

[1] Assets not available for Petroleum Reserves Corporation, Inter-American Education Foundation, and Institu Inter-American Transportation.

SOURCE: Daily Treasury Statement June 30, 1944, and hearings before the Joint Committee on Reduction of essential Federal Expenditures, Part 7, pp. 2299–2306, and Additional Report of the Joint Committee on Reducti Non-essential Federal Expenditures on Government Corporations.

Types of Activities

More than half of the assets is devoted to extending credit to other activities; about a third, to the business of ships and shipping; leaving 10 per cent to other activities.

A large proportion of the total assets of governme corporations is devoted to the business of extending va ous types of credit; the rest, to a wide variety of otl activities. Appendix Table E-3 classifies the assets of go ernment corporations by type of activity: 57.5 per cent the assets of government corporations is devoted to business of extending credit of one sort or another; 3 per cent to ships and shipping; 3.6 per cent to vari types of insurance; and the balance to transportati housing, rural electrification, catastrophe, and war.

Volume of Transactions

Table 6 indicates that 29 government corporati (the only ones for which such data are available) h from date of organization to Apr. 30, 1944, accumula 53.6 billion dollars worth of transactions. Of this su 20.0 billion has gone into loans, 17.3 billion into the pu chase and improvement of property, and 7.5 billion other government corporations in the form of allocatio loans, or rediscounts. As will be indicated below, all bu very small part of the above total represents transacti

vhich have gone on outside of the regular federal budget. ince 1932, to 1944, some 35.4 billion dollars' worth[1] of ransactions had been accumulated by the Reconstruction inance Corporation and the Farm Credit Administra-ion alone. A year-by-year analysis of the transactions of hese two organizations, together with a description of heir sources of funds, is contained in Appendix E (Note nd Tables E 11–E 19).

Transactions amounting to over 50 billion dollars have been handled by 29 of these corporations.

TABLE 6.—USES OF FUNDS OF CERTAIN[1] GOVERNMENT CORPORATIONS FROM DATE OF ORGANIZATION TO APR. 30, 1944

Use	Amount, Millions of Dollars
Expenses:	
Administrative	$ 616.4
Nonadministrative	491.0
Purchase and improvement of property	17,278.6
Loans	20,038.5
Retirement of obligations issued in exchange for mortgages	1,577.1
Investments	2,360.9
Other government corporations[2]	7,546.4
Interest and dividends paid	1,494.2
Other	2,245.5
Total	$53,648.5

SOURCE: Bulletin of the Treasury.

[1] Central Bank for Cooperatives, Commodity Credit Corporation, Disaster Loan Corporation, Export-Import Bank Washington, Federal Deposit Insurance Corporation, Federal Farm Mortgage Corporation, Federal Home Loan nks, Federal National Mortgage Association, Federal Public Housing Authority, Federal Savings and Loan Insur-ce Corporation, Home Owners' Loan Corporation, Reconstruction Finance Corporation, RFC Mortgage Company, ral Electrification Administration, and 15 war corporations.

[2] Allocations, loans, rediscounts.

HARACTERISTICS OF THE GOVERNMENT CORPORATION

In order to understand the impressive growth indi-ated by the foregoing statistics, we must see clearly the sential characteristics of the government corporation. hese characteristics will tell us, in part at least, why the evice has been used. The characteristics of the govern-ent corporation can be delineated best by comparing e government corporation with the private corporation the one hand, and with the government department the other.

[1] This figure and the immediately preceding figures are not on the same ounting basis and are not, therefore, strictly comparable.

The Government Corporation and the Private Corporati

The government corporation differs from the private corporation in that its creation was not required to meet an economic need, since the federal government has other ways of accumulating capital for any enterprise.

The similarity between the private corporation a the government corporation is largely nominal. Each fo is used to further "particular purposes." Each holds charter which describes these purposes, and which besto special legal rights and privileges—for example, the rig to hold property, sue and be sued, and to borrow mon (though not all government corporations have be granted the borrowing power). In addition, both may empowered to obtain funds by selling stock or bonds, a both may engage in so-called "business" activities. He however, the similarity between the two forms ends.

1. The private corporation developed in response a need for large aggregations of funds necessary to finar large-scale enterprise. Funds in the necessary volume co be obtained only from large numbers of individuals. E an individual could not be expected to buy stock, if he v to be held liable, beyond his original investment, for wh ever losses the corporation might incur. Hence, the priv corporation was given a legal existence apart from stockholders, and its capital stock was endowed with called "limited" liability; in most cases the individu could lose only his original investment. The main char teristics of the private corporation appeared, then, unique response to a fundamental economic need. Th the *private* corporation has been and is a necessary devi

Considerations of the above sort are, howev totally irrelevant to the development of the governme corporation. The government has not been, and is n forced to sell stock over a wide area in order to obt funds in the volume necessary to operate some given ent prise. The government can obtain large sums of mon through taxation or borrowing. And the stock of gover ment corporations is not, typically, held by large numb of widely dispersed individuals; it is, typically, held by government itself or by some other government corpo tion or agency (*e.g.*, by the RFC or the Treasury).

And the government corporation is not

2. The object of the private corporation is pr and, unless it achieves this object or at least avoids c tinuous losses, it will cease to exist. The object of the g

rnment corporation, on the other hand, is what is called the public welfare," and the latter (depending upon the ray it is defined) may require that certain government orporations operate at a loss over a relatively long period f time. If they lose their capital, they may be given new unds out of the Treasury or they may be allowed to bor- ow from the Treasury or, with or without government uarantee, in the open market. The losses incurred must ooner or later either be made up out of taxation or become art of the public debt.

organized with the object of profit and dependent on profit for its continued existence.

'he Government Corporation and the Government Department

In order to safeguard the public funds and in order make sure that the operations of the federal govern- ient are carried on with the maximum possible fairness, ongress has developed, over a long period of time, a sys- em of close control over government departments. In eneral, the government department is bound by such estrictions as budget procedures; personnel regulations ith respect to hiring, discharge, and compensation; and multitude of rules with respect to buying material, office ace, and property. The financial freedom of govern- ent departments is closely circumscribed by the General ccounting Office. For example, Sec. 305 of the Budget d Accounting Act of 1921 provides that "all claims and mands whatever by the government of the United ates or against it, and all accounts whatever in which the vernment of the United States is concerned, either as btor or creditor, shall be settled and adjusted in the eneral Accounting Office." This section is the basis for a od part of the Comptroller General's control over penditures, since he may disallow those with which he sagrees. Payment may have been made by a government partment, but if the General Accounting Office takes ception the disbursing officer of the department must cover or be held personally liable. In controlling expendi- res, the General Accounting Office requires strict com- iance with those statutes covering the subject and the erpretations of them contained in the decisions of the

The government corporation has differed from the government department also, in that it was not bound by budget procedures and other restrictions, or subject to the rules of the General Accounting Office.

Comptroller General. These decisions run to more tha
22 volumes.

Although these restrictions have, in most circum stances, very large advantages, they make the typic department incapable of swift and flexible movemen A government corporation, on the other hand, was usuall free (until 1946) from the supervision of the Gener Accounting Office. The latter might be authorized in son cases to do a postaudit of the corporation's operations, bı it had no power to take exception to any expenditure ‹ disbursement. But this freedom from the restrictio imposed by the GAO is only a small part of the freedo that has been enjoyed by the typical government corpor tion.

A department must usually obtain funds by annu Congressional appropriation out of the federal Treasur And because a department does not engage in lending ‹ other activities which resemble business activities, tl funds it disburses do not return to it via repayment ‹ loans or sale of commodities. When a government depar ment spends money, that money is gone, and the depar ment must return annually to Congress for renewal of i funds.

It is not dependent on appropriations by Congress, except originally, and may use repaid loans or earned surplus as it will. Most corporations are also free to borrow.

On the other hand, a government corporatio although its original capital may have been paid for l appropriation out of the federal Treasury, has many oth sources of funds available to it, in addition to appropri tion. If the corporation engages in lending activities, least part of the loans made by it will sooner or later repaid, and out of these repayments new loans can be mac To the extent that loans are not repaid, property will us ally be acquired in process of foreclosure. And this pro erty when sold likewise provides funds out of which ne loans can be made. In addition, most government corpor tions have been given, by their respective enabling statut the power to borrow from the Treasury, from other go ernment corporations, or in the open market. Furth those government corporations whose operations ha been profitable have a further source of funds; name earned surplus.

These multiple sources of funds make possible,

ort, that if the corporation's operations are reasonably ccessful, especially if a surplus is accumulated beyond iginal capital, the corporation may be able to pursue a parate existence until its charter expires or until it is ssolved by Congress. Prior to the act of Dec. 6, 1945, fective in 1946, its operations were largely unreviewed. pursuing this unreviewed existence the corporation, by pidly turning over its capital funds and by exploiting e other sources of funds available to it, could accumu-te over a period of time a very large volume of trans-tions. And a record of only a very small part of these tivities could be found in the federal budget. (The econstruction Finance Corporation, for example, since 32, has disbursed some 25 billion dollars, of which only 5 million, paid by the Treasury for its capital stock, pears as a charge against the federal budget.) [1] Thus, the deral budget has reflected neither the real scope nor the l volume of governmental activities.

The government corporation may sue and be sued, and enter into contracts.

In addition, the government corporation has typi-lly certain powers not possessed by the government partment; for example, the power to sue and be sued d the power to make contracts.

Why the Government Corporation?

As indicated above, the heart of the government rporation has been found (1) in the freedom it enjoyed m the restrictions imposed by the General Accounting fice; and (2) in the broad discretion it enjoyed in the of funds (freedom from Congressional appropriation, ilability of multiple sources of funds, etc.). Why do tain government activities, especially those activities ich resemble business activities, require freedom and cretion? Why should such freedom and discretion have n granted through the medium of the government rporation?

[1] The RFC and other government corporations have, of course, borrowed sums from the Treasury. And these borrowings are reflected in the federal et to the extent that they compel the Treasury itself to borrow. As of May 31, , government corporations owed the Treasury 10.7 billion dollars.

The Need for Freedom and Discretion

Why have certain government activities been granted so much freedom and discretion, and why by means of a government corporation?

Many of the government's ventures into activit which resemble business activities have occurred in peri of so-called "emergency." For example, the governme decided to lend money to agriculture, banks, and railro at the bottom of the depression in 1932; it decided insure bank deposits in 1933. Some of its earlier ventu occurred during World War I; *e.g.*, its venture into business of buying and selling aircraft lumber (U Spruce Corporation) and its venture into the business supplying agricultural and industrial credit (War Fina Corporation). And, because emergency existed, these jo if they were to be done at all, had to be done with relat speed. Further, at any given moment it is impossible foresee in what new directions an emergency will sudde move. And, if the job of dealing with it is to be reasona well done, the instrument chosen to do the job must free, within limits, to follow whatever course the em gency may take; that is, the instrument must be flexil

Freedom and discretion are considered necessary for some government activities in periods of emergency or when long-term commitments are required.

The case for broad flexibility of this sort is perh somewhat less clear when such activities are carried during normal times. But people who have participate such activities have insisted that they could not be car on successfully without freedom from the Gen Accounting Office and, in general, without discretion the use of funds. In 1924 the Inland Waterways Corpo tion (then the Inland and Coastwise Waterways Servi depended upon annual Congressional appropriations support its business of supplying common carrier ser on the Mississippi. General Ashburn, testifying befo Congressional committee, argued that the uncertainty the annual appropriation made shippers wary of mak period commitments; they were never sure that the ser would be in operation the following year. As a resul this uncertainty, the service lost shippers "whose co dence it has taken us years to gain." Very often, also, service had funds (payments received from shippers, et which might have been used to meet some contingenc emergency unforeseen by Congress. But such discretion use of available funds was not possible because exp

ongressional authorization was always necessary. Effi-ent and flexible operation of the service, Ashburn elieved, was thus obstructed.

Likewise, when the government engages in lending tivities Congress cannot, without obstructing the tivity, prescribe in excessive detail the manner in which e activity is to be carried on. Congress can decree of urse that no loans may be made except on adequate curity. It must usually, however, let the lending agency elf decide what does and what does not constitute ade-uate security. Considerations of this sort apply equally to terest rates and other conditions and terms on which ans are granted. But this does not mean that all govern-ent corporations need *large* freedom and discretion.[1]

And government lending agencies require a certain degree of freedom and discretion.

It does mean, however, that some government cor-rations, if they are to exist at all and if they are to func-n with reasonable efficiency, need *some* freedom and scretion.

e Medium of the Government Corporation

Why have the requisite freedom and discretion been anted, usually, through the medium of the government rporation? The mere wish to obtain such freedom does t itself provide a sufficient explanation of the use of the rporate device, for the required freedom and discretion n be and have been achieved in other ways. For example, edom from the General Accounting Office and the Civil vice Commission can be accomplished by delegating job to be done to some going department and exempt- the job, by statute, from whatever regulations seem duly restrictive. Likewise, a government body need not incorporated in order to enjoy whatever legal rights d privileges may seem necessary. The Federal Housing ministration, for example, is unincorporated but can vertheless make contracts and sue and be sued. Further, difference exists, in effect, between a revolving fund ated by appropriation and a revolving fund created by

The required freedom and discretion can be secured, however, without incorporation, by exemption from unduly restrictive regulations and grant of special powers, as in the cases of the Maritime Commission and Federal Housing Administration.

[1] The exact amount and type of freedom and discretion will vary, (1) with nature of the activity to be pursued, (2) with its expected duration, and (3) general conditions. For example, more discretion is probably necessary in con-ns of so-called "emergency" than in periods of so-called "normalcy."

the sale of capital stock authorized by Congress. Bo devices require an appropriation out of the Treasury a both give equal flexibility and discretion. In the case of t old Federal Farm Board (brought under the Farm Cre Administration in 1933) Congress created a revolvi fund by appropriation out of the Treasury rather than authorizing the sale of capital stock by the Board to t Treasury. If, further, a need for future funds is anti pated and Congress wishes to give the organization question the power to borrow, this can be done whether not the organization is incorporated. The U.S. Mariti Commission, an unincorporated agency, may borrow up 200 million dollars. Its notes are fully guaranteed by t government.

The corporate form may be necessary in cases where the government is only part owner, but there are few such semigovernment corporations.

The case for the government corporation is som what stronger when the government corporation is n really a government corporation but a so-called "mixe corporation; that is, when ownership is divided betwe the federal government on the one hand and certain p vate groups on the other. In such cases (*e.g.*, the Bar for Cooperatives, the Federal Land Banks), the device capital stock, part of which is bought by the federal go ernment and part by the participating private groups probably indispensable. But not many government corp rations are "mixed"; in all but a few cases the total capi stock is owned either directly or indirectly by the gover ment itself.

And the device may be useful to permit borrowing without government guarantee—but this is a fictitious distinction.

Further, the corporate device may have some va when the government wishes to engage in some giv activity but cannot (or does not want to) finance th activity either by taxation or by increasing the natio debt. In such a case, Congress can set up a corporation a authorize it to borrow in the open market, but witho government guarantee.[1] This is a fiction, however, esp cially when the corporation is wholly owned by the go ernment, but a "psychological" separation is achiev between the federal government on the one hand and t corporation on the other. The government is in eff borrowing on unguaranteed securities.

[1] The national debt is, of course, increased when the government guarantee corporate flotations.

In short, all the advantages of freedom and discre-on which are achieved through the use of the corporate evice can be, and have been, achieved in other ways. In ıost political circumstances, however, it is probably much mpler to set up a new body and endow it with the neces-ıry freedom, discretion, and powers than to grant the ıme powers to a going department and exempt the latter :om whatever regulations seem unduly restrictive.

In general the advantages of freedom and discretion can be obtained without incorporation, but politically it is more difficult.

Problems Created by Government Corporations

As indicated above, some unincorporated govern-ıent bodies are in many essential respects identical with overnment corporations (with revolving funds, borrow-ıg power, general discretion, etc.) and create therefore ıany of the same problems. To the extent that they give se to the same problems these unincorporated bodies are ıcluded within the scope of this discussion.

The problems created by government corporations involve the type of activities they carry on and their use of their freedom and discretion.

On the whole, the problems created by government ɔrporations and such other unincorporated bodies as have ıe same characteristics fall into two main classes: (1) ıose problems created by the types of activities pursued y government corporations (to what extent, for xample, do government corporations compete with pri-ıte business?) and (2) those problems created by the fact ıat such activities require, presumably, some measure of eedom and discretion.

he Government Corporation and Private Business

Whether or not a government corporation is trespassing on an area that properly belongs to private business may be indicated indirectly by two tests:

With respect to the first class of problems, Appen-x Table E-3 breaks down the assets of government cor-ɔrations by type of activity and indicates the per cent of tal assets of government corporations devoted to agri-ıltural credit, credit to home owners, transportation, ɔwer, etc. Although a breakdown of this sort is useful does not tell us conclusively whether (and which) gov-nment corporations are trespassing in areas which prop-ly belong to private business. What we need, of course, a detailed study of the commodities and services sold government corporations area by area. Such a study s not been done, but two indirect tests may be helpful.

(1) Are business conditions so depressed that a government corporation is needed to take risks that are impossible for private business?

1. Are general business conditions prosperous depressed? Because the government corporation c endure almost indefinite losses, it can in periods of depre sion take risks which, if taken by private business, mig mean the latter's extinction. And in some cases "the pub welfare" and the interests of business itself require th such risks be taken: for example, the risk of lending mon to banks, agriculture, and railroads in 1932; the risk lending money to business in 1933; and others. In perio of prosperity a presumption exists that many such gover ment activities are not necessary.

(2) Does a government corporation operate at a profit or a loss? A profit indicates that the activity could be carried by private enterprise; a loss, that it is really being subsidized and should be appraised accordingly.

2. Has the government corporation in questi operated at a profit or at a loss? If it has operated at profit, a presumption exists that the activity in questi should have been left to (or should now be given up t private business. This does not mean, of course, that government corporate activities which have operated now operate at a *loss* are desirable and should be continue When government corporations operate over a long peri of time at a loss, a subsidy has in effect been paid by t public at large to some geographic or economic group. some cases it is claimed that the payment of such a subsi may be desirable in order, for example, to keep alive so important economic function. But the fact that the loss a subsidy has not always been explicitly recognized. other cases the payment of such a subsidy may perpetu a maladjustment brought about by a natural process economic change and movement.

As noted above, however, these two tests—prospe ous conditions and profits—are not decisive but or helpful. The mere fact, for example, that a governme corporation operates at a loss does not mean that it d not compete with private business; the loss may merely subsidized. And this type of competition may very oft be of the most destructive sort. On the other hand, t government corporation may do, at a profit, a job whi at present seems beyond the reach of ordinary busin (*e.g.*, the insurance of bank deposits on a national scale

Actual competition by a government

When government corporations are in fact fou to compete with private business (produce the same go or services in the same areas, etc.) such competition m

not be fair; (1) because the government corporation enjoys prestige beyond that enjoyed by most private corporations and (2) because the government corporation is taxed to a much smaller extent than private corporations. Typically the notes, bonds, etc., of government corporations are exempt as to principal and interest from all federal, state, and local taxation (except surtaxes, estate, inheritance, and gift taxes). This means, of course, that such notes and bonds carry a lower rate of interest than the notes and bonds of corresponding private corporations. In general, also, the franchise, capital, reserves, surplus, and income of government corporations are likewise exempt from federal, state, and local taxation. Thus, if a government corporation and a private corporation carry on the same activity in the same volume, the government corporation will have lower costs and will be able to accumulate larger reserves. But the real property of government corporations is usually taxable by the states and localities to the same extent that private real property is taxable.

corporation with private enterprise may be unfair, since the government corporation enjoys special prestige and has the advantages also of lower taxes and lower interest charges.

Discretion and Accountability

As noted above, the second class of problems arises from the discretion and freedom usually bestowed on government corporations.

One aspect of this freedom is operational discretion. For example, the Reconstruction Finance Corporation may, upon *such terms and conditions as it may determine,* lend money to banks, trust companies, etc. Not all government corporations, of course, have the same breadth of operating discretion, but all have some. And grants of operating discretion tend to be broader when the activity in question is an emergency activity. Under its wartime powers, for example, the Reconstruction Finance Corporation could make loans to business *for any purpose deemed by the Corporation to be advantageous to the national defense.*[1]

Operating discretion is an important privilege of the government corporation.

A second aspect is that most government corporations, as indicated above, do not have to go to Congress for

Another is freedom from

[1] 15 U. S. Code 606 b.

need of continued Congressional appropriations.

funds.[1] They do not have to go to Congress because th have been given capital funds and borrowing power ar further, because their funds are in large part self-renewir through repayment of loans, sale of goods or acquir property, and earned surplus.

Table 7 and Appendix Table E-4 indicate t extent of this freedom. Table E-4 summarizes borrowi power, paid-in capital, and paid-in surplus of governme corporations. Capital has, typically, been paid in by appr priations out of the Treasury, although in some cases it h been paid in by other government corporations. In a fe

TABLE 7.—SOURCES OF FUNDS OF CERTAIN[1] GOVERNMENT CORPORATIONS FROM DATE OF ORGANIZATION TO APR. 30, 1944

Source	Amount, Millions of Dol
Appropriations[2]	$ 1,450.5
Other government corporations[3]	7,710.0
Sale of notes, etc., to Treasury (net)	9,632.7
Sale of notes, etc., in open market (net)	4,466.5
Sale of stock to other agencies	611.8
Sale of property acquired	10,314.8
Repayment of loans	13,299.5
Interest, dividends, property income	3,518.6
Other	2,964.3
Total	$53,968.6

[1] Central Bank for Cooperatives, Commodity Credit Corporation, Disaster Loan Corporation, Export-Import Ban Washington, Federal Deposit Insurance Corporation, Federal Farm Mortgage Corporation, Federal Home Loan Ba Federal National Mortgage Association, Federal Public Housing Authority, Federal Savings and Loan Insur Corporation, Home Owners Loan Corporation, Reconstruction Finance Corporation, RFC Mortgage Company, R Electrification Administration, and 15 war corporations.

[2] From general fund of the Treasury.

[3] Allocations, loans, rediscounts.

SOURCE: Bulletin of the Treasury.

The self-renewing capacity of government corporations

other cases part of the capital stock has been paid for and held by private individuals.[2] Table 7 summarizes all sourc of funds for 29 government corporations (including war corporations) from date of organization to Ap 30, 1944. Over this period, these corporations have obtain some 54 billion dollars, of which 13.3 billion has come fro repayment of loans, 10.3 billion from the sale of proper

[1] Some corporations have been required to obtain Congressional authori tion to spend part of their own funds for administrative expenses. See Appenc Table E-8.

[2] Federal Deposit Insurance Corporation (48 per cent privately owne Federal Land Banks (44 per cent privately owned); Banks for Cooperatives (3 cent privately owned); Federal Home Loan Banks (29 per cent privately owned)

cquired, and 21.8 billion from borrowings. Only 1.5 bil-ion has come from appropriations out of the federal Treasury. These figures indicate (1) the extent to which he funds of government corporations are self-renewing and therefore the extent to which government corpora-ions may be self-perpetuating). They show, moreover, 2) that the true scope of the activities of the federal gov-rnment has not been measured by the size of the federal udget, for the activities of government corporations, to he extent that they did not require appropriations out of he federal Treasury, have not been reflected in the federal udget.

may make them self-perpetuating, and the federal budget, without them, does not show the extent of federal activities.

These figures also indicate, obliquely, the impor-ance of accountability and control. When freedom from he General Accounting Office and discretion in the use of unds have been granted to government corporations, lose control over individual items of expenditure was acrificed. Periodic accountability to some other govern-ient agency or Congress, as now at last provided, is vitally nportant. We must know, for example, whether the cor-oration has conformed to the intent of Congress and whether the corporation has exercised good judgment in he uses to which it has put its funds. We must know also he real value of the corporation's assets. And the answers o these questions should come not from the corporation self, but from some impartial source. In many cases gov-rnment corporations have audited their own books and valuated their own assets; and there was no way therefore f being certain that the value the corporation placed on s assets was, in fact, the real value of those assets.

Periodic accountability of government agencies is vitally important.

Appendix Tables E-5 through E-10 summarize the osition of government corporations with respect to ccountability and control before the Act of 1945 took ffect. The meaning of these tables may be briefly sum-narized as follows: (1) Eleven government corporations ccounted to the GAO for all expenditures (see Table -5). In some cases administrative expenses were subject o warrant, but operating disbursements (*i.e.*, loans, etc.) vere invariably subject merely to postaudit. (2) Five gov-rnment corporations accounted to the General Account-ng Office for administrative expenses only (see Table

There were 25 government corporations which did not account fully to the GAO or obtain Congressional approval of administrative expenses; and only nine of them issued annual reports to Congress.

E-6). (3) Twenty-five corporations did not account a all to the General Accounting Office (see Table E-7) (4) Of the 30 corporations which did not account to th General Accounting Office for current operations (*i.e* loans, etc.), five were required to have their administrativ expenses authorized by Congress, and the scope and vo ume of their operations were thus subject to annu review. These five corporations are the Export-Impor Bank of Washington, Reconstruction Finance Corpora tion, RFC Mortgage Company, Smaller War Plants Cor poration, and Federal Savings and Loan Insurance Corpo ration (see Table E-8). The other six corporations liste in Table E-8 accounted to the GAO for *all* expenditure (5) Of the 25 corporations which neither accounted full to the GAO nor obtained Congressional approval for thei administrative expenses, some nine issued annual reports t Congress. These nine are the Banks for Cooperatives, Fed eral Intermediate Credit Banks, Production Credit Corpo ration, Regional Agricultural Credit Corporations, Recon struction Finance Corporation, Federal Deposit Insuranc Corporation, Tennessee Valley Authority, and Federal Sav ings and Loan Insurance Corporation (see Table E-9) The other corporations listed in Table E-9 either accounte fully to the GAO or had to obtain Congressional approva of administrative expenses, or both. (6) In short,. ther some 16 corporations did not account fully to the GAC did not need to obtain Congressional approval of admini strative expenses, and did not issue annual reports to Con gress. (7) Most of these 16 reported to some other cor poration or agency. Some of these reports are detailed an available to the public (see Table E-10).

Conclusion

The device of the government corporation was firs used in World War I for the effective handling of larg expenditures for war purposes. Most of these "war cor porations" were liquidated before 1930. Since 1932, number of new government corporations were formed t deal with problems growing out of the great depression and most of these corporations had not been placed i

iquidation before new government corporations were set ıp to deal with vast transactions incident to war produc-ion in World War II.

This review indicates the magnitude of the oper-tions of peacetime government corporations. It also eveals a number of serious problems, financial and admin-strative, growing out of these special agencies of govern-nent. For example, as of Apr. 30, 1944, 26 government orporations had accumulated 54 billion dollars of trans-ctions, of which 20 billion went into loans, 17 billion into urchase and improvement of property, and about 7 bil-on to other government corporations as allocations, loans, r rediscounts. Some of the government corporations ould sell to the public their notes, bonds, or debentures, uaranteed by the Treasury as to principal or interest or oth. In most of them, capital stock is owned by the Inited States. Most of the corporations maintain revolv-ng funds out of which loans and advances are made. Few f the corporations were fully audited by the Comptroller eneral and most of them were not accountable to Con-ress for their activities, before the recent legislation rought them under more regular control.

We have here a vast realm of government within overnment, which was for many years largely beyond ie control of Congress and the people. Public reporting nd disclosure of finances were inadequate. The result is at vast transactions, most of which are ultimately hargeable to the public purse, have been beyond the ach of the people acting through their representatives in ongress.

We have in government corporations a vast realm of government within government, which has been largely beyond the control of Congress and the people.

The device of the government corporation for eacetime purposes should be discarded and existing cor-orations should be liquidated in such manner as to pre-ent or minimize financial losses. The proceeds of liquida-on should be used by the Treasury for the retirement of ie public debt. During the period of liquidation of overnment-owned corporations, including the postwar quidation of government corporations created for war urposes, measures have been needed to ensure adequate ontrol and responsibility. This was the objective of the overnment Corporation Control Act of 1945.

The device of the government corporation for peacetime purposes should be discarded.

PART VII. WAR FINANCING[1]

War expenditures have a disruptive influence on the civilian economy after as well as during the war.

All wars entail heavy financial outlays far in exc of normal peacetime needs. These extraordinary expend tures are usually financed by increases in normal taxes a by new wartime levies in addition to borrowing and t printing of paper money. Although these expenditu are necessary for the prosecution of the war, they exerc nevertheless a disruptive influence on the civilian econor not only during the war but also in the postwar period.

As an aftermath of the war, the national budg become burdened in the postwar period by expenditu for debt service as well as such additional outlays as pe sions and other payments to veterans and their famili Unless the government resorts to outright repudiation its wartime obligations or, as is sometimes done, makes t war debts perpetual obligations, the borrowed funds mu be repaid with interest.

Interest charges on public debt and payments to veterans may amount to 7 or 8 billion dollars a year, without provision for debt retirement.

It is estimated that the interest charges alone on t postwar federal public debt will amount to at least 5 6 billion dollars annually. This is in itself nearly as lar an amount as the entire federal budget was before 19 Payments to veterans are estimated, furthermore, to to about 2 billion dollars annually. However, very few the budget estimates make any provisions for debt reti ment. To retire the public debt in, say, 25 years wou entail an additional burden on the federal budgets approximately 10 billion dollars a year (see Parts V and IX).

The Wartime Bureaucracies

Wartime bureaucracies may continue also.

The civil administration of a war economy is usua handled in large part by special government agenci which at the time of their establishment were design as purely wartime institutions with a life span defined "for the duration." The "duration" is, at best, a vag concept. It is seldom, if ever, thought of as meaning t time from the actual beginning of the military confli to the day of armistice. These so-called war agencies usua

[1] For basic tables, see Appendix F, pp. 1082–1085.

egin to operate prior to the actual outbreak of the hostili-es. Their ultimate liquidation may also be long delayed. .fter the last gun has been fired, a period of semimilitary nergency ensues in which many of the civilian as well as ilitary agencies can and should continue to perform seful functions. Beyond this emergency the existence f the war agencies is uncalled for. However, some of the gencies may remain in operation and thus burden further ie postwar budgets, if the process of liquidation is not ven appropriate legislative and executive attention until ompleted.

These are then some of the major reasons why the deral postwar budgets are likely to include much heavier penditures than was customary in prewar years. A fuller scussion of the postwar budgets is presented in Part VIII. he remainder of this section is, therefore, devoted to a ief survey of some of the main problems involved in nancing the American participation in the two world ars.

nancing of World War I

The financing of World War I was burden-some, and the national debt rose to a peak of 25½ billion dollars in 1919, though high taxes had been levied.

The problems involved in financing World War I, though small in size as compared with those of the second nflict, were nevertheless difficult in comparison with the nancial position of the country at that time. It is not cessary to determine whether the strain on the country that time constituted a greater burden than the second ar did a generation later. Either or both presented rious problems calling for expert management and pervision. The public debt at the time we entered World ar I was in round numbers about 1 billion dollars. Dur-g the war the debt rose sharply and continued to advance r several months after the armistice, reaching a peak 25½ billion dollars on June 30, 1919.

Shortly before the outbreak of World War I, this untry enacted a federal income-tax law which provided e basis for a rapid expansion of taxes in this country. The w which was enacted in 1913 provided for a graduated e of from 1 to 7 per cent. By 1920 this had been stepped as a war measure to the point where the rate started at

6 per cent on incomes of more than $2,000, "head-of family exemption," and rose as high as 77 per cent o incomes of more than $1,000,000. Heavy corporate excess profits taxes were imposed during the war.

Income and excess-profits tax returns indicate tha the peak of the levy on personal and corporate income and on war and excess profits fell on the incomes earne or received for the calendar year 1918. Tax returns fo 1918 for individual and corporate incomes and for wa and excess-profits taxes showed a total tax liability (*i.e* taxes due to the government) of 4.286 billion dollars. I is significant that 2.506 billion dollars of these taxes, c 58 per cent, came from war and excess-profits taxe while personal income and normal corporate taxes wer only 1.781 billion dollars, or 42 per cent.

Reference has already been made to the growth i the amount of the federal debt to more than 25 billio dollars. The increase in the debt plus the extranorma funds raised by taxation represent the total financial out lays by this government in financing the war. It is difficu to say to what extent the increase in the public debt wa absorbed by individual savers. The war-loan drives place a considerable volume in the hands of individual save while the war lasted, but there is good reason for believin that large numbers of such individual investors sold the holdings during the years following the close of the wa It is a well-known fact that by the end of the war th holdings of government securities by banks were substar tial. It is generally recognized that many individual buye made extensive use of bank credit in making their bon purchases and to a considerable extent were not real ir vestors. The effects of selling bonds to individuals in th way were essentially the same as they would have been ha the banks purchased the bonds directly rather than bein in the position of financing individual buyers.

Financing of World War II

It is too early to estimate the enormous

The stupendous economic and social costs of Worl War II will not be known for a long time. But the mon tary outlays can be stated for particular periods durir

he war. These financial costs may be indicated on the basis of either calendar or fiscal years, but such costs are more fully revealed when the war period is divided into ts four major phases: (*a*) preparedness, (*b*) defensive var, (*c*) aggressive deployment, and (*d*) offensive war. This has been done by the Board of Governors of the Fedral Reserve System and the findings are presented in Table F-1 in the Appendix, through June 30, 1945. This able shows the average annual rate of war expenditures including net outlays of government corporations) for ach of the four periods, and also gives the estimated perentages of the total war expenditures which have gone to nunitions, including ships, pay subsistence, and war conruction. Commenting on these expenditures, the *Federal Reserve Bulletin* (February 1944, p. 119) said:

economic and social costs of World War II, but the monetary outlays of the government during the war may be analyzed.

> The first phase was one of preparedness and ran from July 940 to Pearl Harbor. During this period, war expenditures were at rate of 10 billion dollars a year. The following 11 months constited a period of defensive war, in which war expenditures averaged 5 billion dollars a year. The third period was one of aggressive ployment and extended through December 1943. In this period, the nual average rate of war expenditures was 84 billion dollars. In the xt six months of offensive war, it is estimated that war expenditures ill be at an average annual rate of 97 billion dollars; in the fiscal ar ending on June 30, 1945, the average annual rate is expected to 90 billion. [We may note, in this connection, that the war expendires in the fiscal year 1945 were actually 90 billion, confirming this 44 estimate. In the fiscal year 1946, they tapered off to an estimated .8 billion.]

Annual summaries of the federal government from July 1, 1940 to June 30, 1945, show total net receipts for the five years of 133.3 billion dollars, net expenditures of 317.4 billion dollars, of which 281.5 billion was counted as national defense and war expenditure.

As Table F-1 shows,

> . . . the various categories of war expenditures have shifted bstantially. Expenditures for industrial facilities and other war conuction were the first category to reach its peak, which was attained the autumn of 1942. They have declined since then and will decline rther. Payments for munitions and ships have increased steadily from lf of the total to nearly two thirds at present. Expenditures for pay d subsistence increased as the military forces grew and allowances dependents of the fighting men increased and both together amount w to about 30 per cent of the total.

The budgetary expeditures and receipts for the scal years 1943, 1944, and 1945 are summarized in ppendix Table F-2. These summary figures show that

War expenditure for the fiscal year 1946 was 48.5 billion; other, 16.5; net receipts, 43.0

the war expenditures for these three fiscal years w
72 billion dollars in 1943, 87 billion in 1944, and 90 billi
in 1945. The net government receipts for the correspon
ing fiscal years were 22.3 billion for 1943, 44.1 billion f
1944, and 46.5 billion for 1945.

The growth of the federal deficit is depicted
Chart V. The staggering size of this deficit becomes cl
when compared with the deficits during the period
so-called deficit financing in the 1930s.

Wartime Taxes

After taxes had been increased in the defense period, they were sharply increased during the war, as illustrated in the Revenue Act of 1942.

Although special emphasis is placed on the exce
profits tax in this section, attention should be called
other tax measures instituted during this war.[1] It is r
the purpose, however, to deal with these measures in a
great detail but rather to give a general survey of t
various changes that took place during the war. T
Revenue Act effective Oct. 21, 1942, which increas
sharply most of the existing taxes, as well as introduci
several new levies, continued the upward trend of ta
which had started during the defense period.

The Individual Income Tax

On personal incomes, the normal tax was increased from 4 to 6 per cent, the surtax to range from 13 to 82 per cent, and exemptions were reduced.

The normal tax rate on individuals was increased
this act from 4 to 6 per cent. The surtax rates were rais
to range from 13 per cent on the first $2,000 to 82 p
cent on the portion of the net income exceeding $200,0

The increase in rates was combined, as in 1940 a
1941, with a reduction of personal exemptions. Exem
tions were reduced from $1,500 to $1,200 for marri
persons and heads of families; from $750 to $500 f
single persons; and from $400 to $350 for each depende

The 1942 act also introduced several new deductic
from income for individuals. The maximum deducti
was set at $2,500 for married couples filing joint retur
and $1,250 in other cases.

[1] This material is drawn from the Annual Report of the Secretary of
Treasury, 1943.

Capital Gains and Losses

The treatment of capital gains and losses underwent a thorough revision. Gains and losses from the sale of capital assets had previously been classified into three categories according to the length of time the assets had been held. The 1942 act consolidated the three into two categories: (1) short-term gains or losses (those realized on assets held for 6 months or less) and (2) long-term gains or losses (those realized on assets held for more than 6 months). For individuals, 100 per cent of short-term gains and losses are taken into account, but only 50 per cent of long-term gains and losses. Either type of loss may be used in computing the tax as an offset against either type of gain, but a net loss may be applied against ordinary income only up to $1,000. For corporations, both types of gains and losses are taken into account in full, but a net capital loss may not be offset against ordinary income. Both individuals and corporations are allowed a 5-year carry-over of capital losses remaining after offsets against gains or ordinary income. The maximum tax rate on the excess of statutory net long-term gain over net short-term loss is limited to 50 per cent for individuals and 25 per cent for corporations.

The treatment of capital gains and losses was revised for both individuals and corporations, with full inclusion of short-term gains and losses, but net loss was not counted as offset against ordinary income.

The Victory Tax

As a supplementary measure to increase the net income tax on individuals, this act introduced the Victory tax. This tax differed from the net income tax in that its income base was somewhat broader and it was collected at the source for wage and salary earners. A single exemption of $624 per income recipient was provided in place of varying exemptions. The rate was fixed at 5 per cent (before credits). Generally speaking, the only deductions allowed from gross income were expenses incurred in trade or business or in connection with the production or collection of income.

As of the middle of 1943, the Victory tax was incorporated in a 20 per cent withholding tax collected at the source for wage and salary earners. This was the so-called

To personal tax a "Victory" tax was added on a broad base, but later incorporated in a 20 per cent collection from wages and salaries, less personal exemption, withheld at source and applied to total tax for year.

"pay-as-you-go" tax scheme. The 20 per cent tax appli to earnings after personal exemptions and the procee were credited toward the individual's total tax for the ye

Corporation Taxes

On corporation income, the normal tax, ranging from 15 to 24 per cent, was unchanged, but surtax was raised, and excess profits tax to a flat rate of 90 per cent.

This 1942 act left the normal tax on corporatio unchanged: 15 to 19 per cent if normal tax net income $25,000 or less; and 24 per cent if normal tax net incor is over $50,000. A notch provision in the form of an alte native tax applied on incomes between $25,000 a $50,000, the income between these amounts being tax at 31 per cent.

The act fixed the surtax rate at 10 per cent if the su tax net income does not exceed $25,000 and at 16 p cent where net income exceeds $50,000; on incomes b tween $25,000 and $50,000 a notch provision was enacte taxing the first $25,000 at 10 per cent and the ne $25,000 at 22 per cent. The excess-profits tax, previous levied at rates ranging from 35 to 60 per cent, was i creased to a flat rate of 90 per cent. (For further discussi of this tax, see below.)

The income base of corporate normal tax and su tax was revised in this act, which in effect provided sep rate income compartments for the excess-profits tax a the normal and surtax. Whereas the excess-profits t (discussed later) was previously deducted from net i come to provide the normal and surtax base, the act pr vided that the income subject to the excess-profits t was to be deducted from net income for this purpose.

A 2-year carry-back of net operating losses was provided.

The act provided for a 2-year carry-back of n operating losses. Allowing a taxpayer to use a net loss one year to offset a profit in another was not a new devi but prior to this act the only use of this device had be to permit losses for two preceding years to be carried fo ward to succeeding years. The 1942 act allowed the ta payer to carry back the net losses to the two previo years, securing an adjustment in taxes for those years.

The Excess-profits Tax

It is not necessary at this point to discuss the unde lying theory and principle of excess-profits taxation. Sin

ne excess-profits tax is intimately and realistically con-
ected with wartime economic conditions, it is not sur-
rising that consideration was given to the excess-profits
ax as early as 1940.

The excess-profits tax revived in a small way in 1933 was raised in 1940 to rates ranging from 25 to 50 per cent.

Excess-profits taxes for the year 1940 were calcu-
ted on a sliding scale starting at 25 per cent and running
p to 50 per cent on all excess profits over $500,000. This
iding scale is shown in the accompanying table.

On the first $1,000,000 of excess profits, the 1940 tax
nounted to $454,000, or 45.4 per cent. For 1941 a new
ding scale on excess-profits tax rates ranging between
and 60 per cent was set up as shown in the accompanying
ble. Thus, for 1941, the first $1,000,000 of excess profits
as taxed $554,000, or 55.4 per cent.

These rates were increased further in 1941, ranging from 35 to 60 per cent.

1940 Excess-tax Rates

Taxable excess	Rate, per cent	Cumulative tax	
On first $20,000	25	$ 5,000	25.0%
On next 30,000	30	14,000	28.0%
On next 50,000	35	31,500	31.5%
On next 150,000	40	91,500	36.6%
On next 250,000	45	204,000	40.8%
On next 500,000	50	454,000	45.4%

1941 Excess-tax Rates

Taxable excess	Rate, per cent	Cumulative tax	
On first $20,000	35	$ 7,000	35.0%
On next 30,000	40	19,000	38.0%
On next 50,000	45	41,500	41.5%
On next 150,000	50	116,500	46.6%
On next 250,000	55	254,000	50.8%
On next 500,000	60	554,000	55.4%

In 1942, a flat rate of 90 per cent was put into
ect on *all* excess profits of corporations. The same rate
s continued in 1943. In 1944, the rate was again
reased to 95 per cent which was considered to be about
igh as it could go without endangering the basic struc-
e of our economy and the success of the war program.

The three general formulas for determining the
rmal profit" or amount of exemption from the excess-

In 1942 a flat rate of 90 per cent was adopted; in 1944 increased to 95 per cent. All excess profits of

corporations were included, and various formulas used to compute "normal" profits exempted.

profits tax may be partly indicated as follows: (1) Tal the average yearly earnings before taxes in the four yea 1936–1939 and make certain adjustments; or (2) tal the average amount of invested capital outstanding in tl taxable year just passed and figure 8 per cent of that, 6 per cent in some cases, and only 5 per cent for a b company on its invested capital over $10,000,000; or (3 take a rising trend of earnings in the 1936–39 period ar apply a special "growth type" formula.

These drastic steps were taken to prevent profitee ing and to provide adequate revenues to the governme for the effective prosecution of the war. The proponen of these extraordinary rates have disclaimed any intentic of preserving them for the postwar period. The e cess-profits tax regulations were clearly calculated only an emergency war measure. In the 1945 tax la the excess-profits tax was repealed, to take effect on 19 incomes.

The revenues from the excess-profits tax alo amounted in 1944 to about 9.3 billion dollars; in 194 to about 11.0 billion. In the latter years this tax repr sented over two thirds of all the income taxes collect from corporations on 1944 business. These figures rev at a glance the magnitude and importance of excess-prof taxes collected during the war period.

The Role of the Banks in War Financing

The total debt of the United States rose fr approximately 40 billion dollars at the time of the outbre of World War II to about 270 billion dollars in Ju 1946. The amounts of this debt held by the fede reserve banks, all banks, and the member banks shown in Appendix Table F-3. The same table gives a the percentages of the total debt held by these three clas of banks. The most striking feature brought out in t table is that the various percentages are almost stat while the actual amounts for each type have risen in fai consistent conformity with the increase in the total d of the government.

The banks absorbed a

A similar development was presented in the fi

½ years of our direct participation in the war, or from ecember 1941 to June 1945. During that period, the tal debt (including the guaranteed debt) increased from out 64 billion dollars to slightly more than 259 billion. uring this period, the federal reserve banks increased eir holdings of government obligations from 2.3 billion 21.8 billion, but the per cent of the total debt held these banks rose from 3.5 to 8.4 per cent. The corsponding figures for all banks are a rise in amounts from .5 billion dollars to 93.7 billion while the percentages clined from 39.7 to 36.1. For the member banks, the crease in amounts is from 19.5 to 73.2 billion dollars th a change in percentage from 30.4 to 28.3.

large percentage of government debt during the war, ranging from over 42 per cent in June 1941 to 36 per cent in June 1945.

These changes may or may not indicate a permanent end. Justification for this conclusion is found in the ct that the holdings of federal debt by all banks nounted to 42.5 per cent of the total debt on June 30, 41, after which it declined to 39.4 per cent on June 30, 42, and then rose to 41.0 per cent as of June 30, 1943, om which it dropped to 36.1 per cent in June 1945. uring the period from June 1942 to June 1945, the nount of savings bonds outstanding increased from 10.2 lion dollars to 45.6 billion. Although the amounts outnding had risen to 21.3 on June 30, 1943, and to 45.6 lion as of June 30, 1945, the rate of increase slowed wn considerably. During the same period short-term s and certificates of indebtedness increased from 5.6 ion dollars to 51.1 billion, showing a greater reliance on rt-term financing.

Despite the fact that the banks have been given fewer ucements to purchase government obligations, the fact nains that the aggregate increases are tremendous. No can say that the public will continue to purchase ings bonds at the same rate as during the war years. ough the amount of borrowing is smaller by reason of uced government expenditures, the question still is: ll the banks have to take a larger or a smaller protion of the amount to be raised? In view of the exten- tax program which is now in effect, it would not n likely that the banks would be called upon to absorb rger share of the government obligations.

The percentage of government obligations in the loans and investments of banks increased from 37.8 per cent in June 1939 to 72.2 per cent in June 1945, with corresponding increase in commercial bank deposits.

Since June 1939, the percentage of loans and inve ments of banks in the United States consisting of gover ment obligations has increased largely, rising from 3 per cent in June 1939 to 72.2 per cent in June 1945. T increase in the holdings of government securities has h an important effect upon the volume of bank deposits all commercial banks, which rose from 56 billion dollars June 1939 to 124 billion in June 1945 (exclusive of int bank deposits). Money in circulation during the sa period rose from 7.0 billion dollars to 26.7 billion, 280 per cent. Commercial banks, as a matter of banki policy, have, moreover, shown a strong tendency to co centrate their purchases of government obligations short-term securities. Almost 94 per cent of all gover ment securities held by a large group of representat banks had a maturity date of 10 years or less, and of t total volume 63.7 per cent was for 5 years or less and 3 per cent for less than 1 year. These figures indicate t a large proportion of the public debt is practically floating debt and will involve serious problems of ma agement in the future. For more detailed figures on ba deposits, money in circulation, and the maturity distrib tion of government securities held by commercial ban see Appendix Tables F-6 and F-7.

A large proportion of the public debt is a floating debt, maturing within less than 10 years.

Conclusion

The financial problems left by World War II are far more serious than those left by World War I.

Wars leave their mark on our economy. The fin cial problems of World War II are far more serious t those of World War I, because of its greater magnitu if for no other reason. But factors present in World W II were not present in World War I. Before we ente World War I the federal government was spending ab ¾ billion annually and had a public debt of a little o 1 billion dollars. We entered World War II with a pea time budget of nearly 9 billion dollars and a public debt 43 billion. The direct cost of World War I, including f eign loans, was about 35 billion dollars. In World War we spent nearly three times the total cost of World W I within 1 year, and by June 30, 1946, our expenditu for war purposes since July 1, 1940, had exceeded

illion dollars. Neither war was financed entirely by taxa-
ion.

World War I resulted in a debt increase of about 4 billion dollars, but World War II resulted in an inrease of more than 230 billion dollars besides the debt f over 40 billion accumulated previously and the deficits nce the ending of hostilities. Obviously, far greater probems as regards debt liquidation are presented in the conseuences, as they were in the prosecution, of World War II.

World War I resulted in a debt increase of about 24 billion dollars, World War II in a debt increase of at least 230 billion dollars

In spite of a great increase in taxes, on both cororations and individuals, the federal government icurred large annual deficits in the prosecution of World Var II. The analysis has shown that a considerable poron of the newly acquired war debt has been sold to the anks and thus results in a great expansion of bank eposits. The money supply of the country, as measured y both bank deposits and money in circulation, increased y about 112 billion dollars from June 1939 to June 1946.)ne of the most serious problems growing out of war nances is the tremendous increase in the money supply f the country resulting from war deficits. Moreover, we ave carried into the postwar period a public debt of over 70 billion dollars which may involve an interest charge f between 6 and 7 billion dollars annually.

The tremendous increase in the money supply, due to war deficits, intensifies the postwar problem.

PART VIII. ESTIMATES OF POSTWAR EXPENDITURES[1]

With the end of the war the American people face ie problem of fiscal reconversion from unprecedentedly gh war expenditures to more normal fiscal functions on ie part of federal, state, and local governments. Particur attention is being paid now to the postwar federal idgets. Almost all postwar tax programs include some timates of the future federal budgets, but only a few ive attempted to forecast the postwar budgets of state id local governments.

Three different estimates of postwar federal expenditures are presented here; four others in Part IX.

In this part only three estimates are presented in order it to duplicate the material in Part IX on Postwar Tax

[1] For basic tables, see Appendix G, pp. 1086–1088.

Plans. The budget estimates discussed here are those made b Prof. Crum, Prof. Hansen in cooperation with Dr. Perlof and Prof. Fairchild. Prof. Crum's estimates refer only t the federal budget, while the Hansen-Perloff forecast dea with federal, state, and local budgets in the postwar year Prof. Fairchild deals largely with the theoretical premis of postwar taxation. Four other estimates appear i Part IX.

Differences in current estimates are often due to underlying estimates of national income. Most of the forecasters see a federal budget around 20 billion dollars; none expect a return to the prewar level.

It was, of course, impossible for anyone to forete the exact size of any of the postwar budgets while th war was still raging on all fronts. However, most of th published estimates have the virtue of reasonableness rath than wishful thinking. That they differ in size is often du to the underlying estimates of the national income upo which the budget forecasts are based. But it is also tru that some of the forecasts are placed low deliberately, it is quite generally recognized that the core of the enti fiscal problem is moderation in expenditures.

These estimates of the size of the future peacetin federal budgets vary from 14 billion dollars to abo 30 billion with the majority of the forecasts clusterin around a federal budget of about 20 billion. This compar with a yearly average of 6.6 billion for the period fro 1930 to 1940 and 8.7 billion dollars in the last prewar ye of 1940. In other words, none of these estimators expe a return to the prewar level of government expenditur

The interest charges on the public debt alone we estimated to be nearly as high as the entire average feder budget from 1930 to 1940, or approximately 5 to 6 billi dollars, on the assumption that the huge war expenditu would not continue after 1945. It was also generally b lieved that the expenditures for military purposes wou be very much larger in the postwar period than in a previous peacetime era. The size of the expenditures f veterans is another item that apparently will loom lar in the future federal budgets, according to the priva estimates.

The Crum Estimates

In the Crum estimate it is

The estimates of Prof. William L. Crum of Harva which appear in Appendix Table G-1, are especia

nteresting as they not only give a range for the average xpenditures for the decade from 1946 to 1956, but lso distinguish between so-called average "inescapable xpenditures" and aggregate "discretionary expenditures" or that period. It should be observed, however, that either Crum nor Hansen and Perloff have included any rovisions for the retirement of the public debt in their udget estimates. Were such provisions made, the size of he budget would obviously be increased materially.

notable that a distinction is made between inescapable and discretionary expenditures; that no provision is included for debt-retirement; and that a flexible amount is given for additional social security.

It is also noteworthy that Prof. Crum included, in ddition to an average annual inescapable expenditure or social security of 1 to 2 billion dollars, an aggregate iscretionary expenditure for the decade 1946–1956 of to 15 billion dollars for what he calls "further social ecurity." Hansen and Perloff, on the other hand, include n annual expediture of 3.5 billion dollars for social insurnce and also 2 billion for health insurance and public ealth service.

The table showing Prof. Crum's estimates was preared by John W. Welcker and was originally published the summer issue of the *Harvard Business Review*, 1944. his table compares average expenditures for the period 930–1940 with the fiscal year 1940 and with the estiated averages for the decade 1946–1956 and the aggreate discretionary expenditures for the same decade.

he Hansen-Perloff Estimates

Prof. Alvin H. Hansen of Harvard and Dr. arvey S. Perloff, former economist for the Federal eserve Board, in a book entitled *State and Local Finance the National Economy*[1] have prepared estimates on deral, state, and local budgets (see Appendix Tables -2 and G-3).

They make use of the concept of the Gross National oduct for their budget estimates. And, according to the thors,

In the Hansen-Perloff estimates federal, state, and local budgets are included. The authors use

> . . . the Gross National Product is a concept which has only ently come into general use. This concept indeed became absolutely essary as soon as governmental outlays during the war period began

[1] W. W. Norton & Company, Inc., New York, 1944.

the concept of Gross National Product, representing the total value of all goods and services produced, instead of the concept of "national income."

to play an overwhelmingly dominant role in the whole nation economy. The Gross National Product represents the total moneta value of all goods and services produced, whether by private individu and business units or by government. It is a broader concept th that of the national income. The national income, as this concept h evolved over the last couple of decades, has come to mean incon payments to individuals plus net corporate savings. The term "incon payments to individuals," or more briefly, simply "income payments has increasingly come into wide use and is a very useful concept sin it gives us the magnitude of the flow of income received by individua The Gross National Product—the value of all goods and servic produced, including replacements of capital goods—is equal to (the income payments to individuals, (*b*) gross business savin (adjusted),[1] and (*c*) business taxes.

They expect some decline in Gross National Product, because of reduction of labor force, employment, and overtime, and movement from high-wage to lower-wage industry. They put national product at 160 billion dollars, with payments to individuals at 132 billion dollars.

The authors come to the conclusion that in the pos war period we must expect some substantial decline in tl Gross National Product.

This follows mainly, in their analysis, from tl following facts: (1) Some substantial number of tho employed in civilian and military activities (about 6 million in 1943) will drop out of the labor market. (2 Overtime work will largely be eliminated. (3) There wi be a movement from high-wage war industries to rel tively lower-wage civilian industries, as for example fro shipbuilding to trade and service industries. (4) Son increase in the amount of unemployment (even und theoretical "full employment") may be regarded as un avoidable under peacetime conditions, owing to norm labor turnover, transitional shifting of labor geograph cally and industrially, and seasonal unemployment.

It is estimated that after taking account of these factors should be possible, at a price level substantially similar to that of 19 or 1942, to produce a Gross National Product of $160 billion. Wi very substantially lower business taxes than those of wartime, tl should make possible income payments (receipts of individuals) of $1 billion.

Their budget estimates (in billions) are: federal $23, state, $3.6, local $9.4.

In the postwar budgets estimated by Hansen ar Perloff, the federal budget is placed at 23 billion dollar the state budgets for all 48 states at 3.6 billion, and tl local budgets at 9.4 billion. These figures refer in each ca

[1] Gross business savings, as here used, do not include the *net* savings unincorporated business, since these are a part of "income payments." Gross busin savings include (*a*) net savings of corporations and (*b*) depreciation and otl reserves of all business units, whether incorporated or not.

nly to the "own functions" of each governmental unit. f federal grants to states and local governments are inluded, the federal budget is estimated to be 3 billion ollars higher, or 26 billion.

They add $3 for federal grants to states and localities.

Hansen and Perloff have subdivided the total budget or all governmental bodies, 36 billion dollars, in the ollowing four categories:

The expenditures are distributed among human betterment and service, material improvements, protection, and general government expenditures.

	Billion Dollars
Human betterment and service expenditures	$ 13.7
Improvements in material resources and facilities	7.0
Military and other protection	6.8
General governmental expenditures including interest on the public debt	8.5
Total	$ 36.0

This unusual form of presenting the main categories f the total governmental expenditures for federal, state, nd local governments explains, in part, the concepts nderlying their budget estimates.

Interest on but not retirement of public debt is included.

As seen in the table on page 1086, the postwar xpenditures of the *local* governments are estimated at round 9.4 billion dollars. This figure compares with 6.7 illion dollars (excluding debt retirement) spent in 1941.

The main increase is due to considerably larger educational penditures, and to outlays on urban redevelopment and improveents. The local governments, it is assumed, would raise about $5.3 llion in tax and non-tax revenues (other than borrowing), or exactly e amount so raised in 1941. The difference between the proposed penditures and revenues would be made up from transfers by the deral government and the states, and partly from borrowing, especlly by the local public-service enterprises.

As regards the *states,* the authors say:

. . . the total expenditure budget of the states for the postwar riod, it is assumed, would amount to $3.6 billion as compared to $2.7 lion in 1941 (after deducting expenditures for unemployment surance, here transferred to the federal government). The main anges of the state budget involve an increase in expenditures for blic improvements, education, and welfare. It is assumed that the x revenues of the states would exceed the expenditures on their own nctions.

The item Grants to States and Localities appearing

in Appendix Table G-2 shows that according to Hanser Perloff the transfers from the federal government to tl states and localities would amount to 3 billion dolla as compared with 900 million in 1941, "exclusive c federal aid to local construction projects through tl Work Projects Administration, amounting to about $85 million."

It is also forecast that the majority of the fun transferred from the federal government to the state especially for health, welfare, and educational purpose will go via the states and be spent by the local government

A moderately high level of private investment, about 12 billion dollars, is anticipated, but 3 billion dollars of federal investment is added.

It should be emphasized furthermore that tl Hansen-Perloff budget estimates for the postwar peric are based on the assumption of what they call "moderatel high levels of private investment," which they define follows: "A moderately high level of net private inves ment may be estimated at about $12 billion, compare with about $8 billion in the late twenties." And it is furth explained, that "in order to take up the flow of net co porate and individual savings of $15 billion, $3 billion c federal government issues (in addition to the $12 billic private capital outlays) would be necessary to mainta income and employment."

The Fairchild Principles and Estimate[1]

Fairchild puts first several principles.

Prof. Fred R. Fairchild of Yale sets forth "certa principles which have a very direct bearing upon prese practical problems of postwar taxation."

Taxation should not be considered except in connection with expenditures, and vice versa.

1. It is unprofitable to consider the problem of taxation withc at the same time considering the problem of governmental costs. It impossible to say how heavy a burden of taxation should be impo without knowing the character of the government expenditu which it is proposed to finance.

2. Conversely, it is unprofitable to undertake to develop plan of government functions and costs without considering t corresponding burden of taxation.

3. In particular, we can never determine the amount tl should be raised by taxation until we arrive at some notion of t

[1] The material used here is drawn from "Some Theoretical Premises of Problem of Postwar Taxation," *Bulletin of the National Tax Association*, Vol. X No. 1, October 1944.

rginal utility of the government functions that will be financed ereby.

4. It is similarly futile to try to determine how much should raised by any particular tax, such as the corporation income tax, e individual income tax, the sales tax, etc., without giving consideron to the present and future revenues that might be obtained from ch other possible form of taxation. The more we consider increasing e exactions of a particular tax, the more important does it become inquire whether a lesser marginal burden might not be imposed by creasing the rate of other taxes or introducing new forms of taxation.

5. Taxation is subject to "a law of diminishing returns." It is ssible to push the rate of any particular tax to the point of maximum venue—"what the traffic will bear"—or even beyond. Only in time extreme emergency would it conceivably be to a nation's advantage push taxation to the point of maximum revenue. No useful purpose accomplished by going beyond this.

We should weigh marginal utility of government functions, marginal burdens of different forms of taxation.

In taxation we should consider the law of diminishing returns.

Most of the current programs of postwar taxation begin by dertaking to say what the character and amount of postwar govmental costs will be. This requires assumption of the prophetic role d makes the analysis speculative and debatable from the start. I nfess that I have myself on certain occasions done this very thing. ne results cannot be wholly satisfactory.

In place of this approach, would we not do better by starting th a schedule of governmental functions and costs that approaches e possible minimum? We may derive such schedule from historical perience and analysis of present conditions. For example, consider mething like this for a schedule of costs of the United States governent in a postwar equilibrium year:

	Billion Dollars
Interest on the public debt	$ 5.5
Military establishment	3.0
Veterans' pensions and benefits	1.0
Civil departments	1.0
Other activities	1.5
Debt retirement	1.0
Total	$13.0

Minimum costs of federal government may be taken as about 13 billion dollars.

In conformity with the theoretical approach suggested in this say, the above schedule is to be regarded neither as a prophecy nor my own proposal for federal government costs. A few words only ll suffice by way of explanation of the details.

It should be noted, at the outset, that I have included nothing r social security. I assume that this function will be separately anced.

The interest item offers little leeway. The public debt is now eptember 1, 1944) 210 billion dollars. I estimate that it may be out 280 billions when we settle down to postwar financial equili-

brium. At an average rate of 2 per cent, the annual charge works ou at about 5½ billion dollars.

I think no reasonable person will deny that we shall need, i the years following this war, a military establishment much great than we ever had before in time of peace. I have allowed 3 billio dollars, which is almost three times what was spent for this purpo in the three years 1936–1938, the last years before defense preparatio began to step up the cost.

For veterans' pensions, etc., I have, after some considerab study, accepted a figure which is almost double the annual amou spent during the period 1934–1940, excluding the special lump-su bonuses.

To meet this minimum, an optimum system of taxes should be set up, equalizing the marginal burdens of a number of different taxes.

For all the civil departments of the government and all oth activities (including welfare and health, conservation and developmen and miscellaneous) I have put down 2½ billions, which, while sul stantially less than was spent in the years immediately preceding th war, is twice what sufficed in 1931.

Finally, I think, if we are to maintain our financial standir and the credit of our national debt, the postwar budget must mal some provision for reduction of the public debt. I have put dow the moderate sum of 1 billion dollars. We thus arrive at a total feder budget of 13 billion dollars.

With this hypothetical schedule of government costs, the ne step is to set up the optimum system of taxes. I do not propose go into detail as to this, but merely to suggest that it requires to equalize the marginal burdens of a number of different taxes.

Additional expenditures may be wanted for public works, federal aid, subsidies, etc.

All this is preliminary to the real problem of formulating actual postwar tax problem. From this point, argument will at on arise; first, as to the schedule of governmental costs. There is nothi for public works. There should be a billion or two for federal ai There should be provision for federal subsidies to certain industr groups. And so on.

Will these benefits justify the extra tax burden? What taxes then shall we add?

But if these additional costs are to be added, there must the addition of an equal amount of taxation. So we come to the r question. Are the benefits of the proposed government services equ to the burden of the additional taxation? Only by answering tl question can the problem be solved. Whenever anyone suggests additional government service, let him tell what taxes he would pr pose to cover the cost, and let him show that the service is wor what it would cost.

The benefits of government service must be equalized with the tax burden; and the burden of

Conversely, there may be objection to any existing or propos tax. In such case, let the objector specify either what other form taxation should be increased or what government function should curtailed. The problem is solved when the marginal burdens of diff ent taxes are equalized among themselves and with the margi benefits of government services.

This all boils down to two simple rules: (1) the benefits government services must be equalized with the burdens of taxat and (2) the burden of each form of taxation must be equalized w

he burdens of other forms. Although simple, these rules are very ommonly neglected. Solution of our present problem of postwar taxa- ion would, I think, be immensely facilitated by observance of these ules and the principles upon which they are based.

each form of taxation with the burden of other forms.

Conclusion

There is a wide range in the various estimates of fed- ral expenditures in the postwar period—from a low of 13 illion dollars to a high of 26 billion. The estimates sum- narized above indicate entirely different approaches to he problem of the postwar budget.

The range of estimates indicates different approaches. Hansen looks from viewpoint of desirable expenditures.

At one extreme, Prof. Hansen has proposed federal xpenditures of 26 billion dollars of which 3 billion is for rants-in-aid. Even these large expenditures assume moderately high levels of private investment." The im- lication is that if there is not a full private invest- nent federal expenditures must go far beyond even this igure.

Fairchild takes viewpoint of relation between benefit of services and burden of corresponding taxes.

Prof. Fairchild suggests a minimum federal budget or the postwar years of 13 billion dollars, including 1 illion for debt retirement. Although Prof. Fairchild does ot maintain that this should be the final budget figure, e believes that we must face this question: "Are the enefits of the proposed government services equal to the urden of the additional taxation? Only by answering hat question can the problem be solved. Whenever any- ne suggests an additional government service, let him ell what taxes he would propose to cover the cost, and et him show that the service is worth what it would cost."

Large estimates of expenditures for military establishment should be weighed according to actual need.

Various estimates of postwar federal budgets usually ndicate that approximately one third of the total consists f military and naval expenditures. Such expenditures are requently estimated at 5 to 8 billion dollars. This is more han the entire annual cost of the federal government in he predepression years and approximates the greatly nlarged federal expenditures during the later thirties. n view of the huge sums involved, it is essential to deter- nine whether they are needed, because the size of military nd naval expenditures largely determines whether the ederal budget will be balanced in the postwar period.

Experience in two world wars during the life of a ngle generation makes it clear that government expendi-

We want adequate protection, but large military establishments have not brought peace or security to the nations.

tures which will prevent war or place the United State in position to achieve rapid victory in case war shoul come would be the ultimate in public wisdom and eco nomy, no matter how large such expenditures might be For the monetary costs of war and the adverse effects on ou political and economic system are certain to be manyfol as large as the effective costs of war prevention would be

We should use our economic and political prestige, and organizing ability, to create international instruments to establish and maintain peace.

The industrial and financial strength of the Unite States have put this country in a position to take the lea in constructive measures for establishing permanent peac Great military establishments have brought neither peac nor security to those countries which bore the enormou cost of maintaining such establishments. American ingen uity and power of organization, which have so effectivel solved the problem of war production, should be inten sively directed toward creating instruments for the estab lishment and maintenance of peace before our countr resigns itself to maintaining an Army and Navy of sev eral million of our finest young men and of spending to 8 billion dollars to support those services.

If the United States adopts the policy of maintainin huge armed forces, other countries must follow suit. I the United States uses its economic and political prestig for building a reliable peace structure, then our own coun try and the rest of the world may be relieved from th costs of preparing for war, of engaging in war, and of it aftermath. And these costs have throughout history bee the principal causes of disordered currencies, unbearabl debts, and commercial economic confusion.

If we favor giving private enterprise a chance to create jobs, we should keep government spending at a level that can be met by taxes that do not penalize incentive and investment.

The problem of the postwar budget involves th fundamental fiscal policy to be adopted. Do we favor program of large government spending with the pos sibility of even further borrowing from the banks t ensure postwar jobs, or do we favor giving private enter prise a chance to create jobs through private production If we follow the latter course, government spending mus be kept at a level that can be met by taxes which do no penalize incentive and investment.

In the next part we continue our discussion c postwar public finance by sketching (with reference t Appendix analysis) several postwar tax plans.

PART IX. POSTWAR TAX PLANS[1]

In addition to the foregoing proposals for postwar xpenditures, a number of plans have been offered for ostwar taxes. Although these proposals differ imporantly in detail, they have certain broad objectives in comnon. The details of these plans are given in Appendix H, ut the broad ideas upon which they are based are outined below. The plans included in this summary are those repared by Harley L. Lutz, Beardsley Ruml (in collaboraion with H. C. Sonne), the Twin Cities Research Bureau, nd the Committee for Economic Development.

Four plans for postwar taxes are described in Appendix H: the Lutz, Ruml-Sonne, Twin Cities, and CED plans.

ssumed Level of National Income

All these plans assume a level of national income nuch higher than any prewar level. The various assumpions of levels of national income also are based on assumpions as to the price level and the estimators do not assume he same price levels. Obviously a high level of national ncome in the postwar period based on a rise in prices no better than a smaller national income at a lower rice level. The thing that is essential is the amount of oods and services produced, not the monetary value of he national income. The CED and Ruml-Sonne plans ssume 140 billion dollars and the Twin Cities plan ssumes 120 billion. Lutz assumes 125 billion dollars. These ssumptions are, of course, not forecasts; but if the federal udget is to be balanced and tax rates reasonable, the vel of national income will have to be high—perhaps s high as these assumptions make it.

They all assume a far higher than the prewar level of national income, ranging from 120 to 140 billion dollars.

he Budget

The assumed level of federal expenditures varies om plan to plan, with 18 billion dollars the figure most ften used, but even the lowest budget (Lutz's) is almost vice as high as any prewar budget. On the whole, all ans agree that whatever its level the budget should be

The level of federal expenditures assumed is not over 15 billion

[1] This section merely summarizes the broad ideas upon which these tax ns are based. A detailed discussion of the plans will be found in Appendix H, . 1089–1102.

dollars in the Lutz plan, about 18 billion in the others.

balanced, although the Ruml-Sonne plan provides that i national income falls below 140 billion dollars (55 millio employees, 40 hours a week; 1943 prices) federal deficit would become necessary. The Ruml-Sonne and Twi Cities plans make debt retirement the flexible element i federal expenditures and believe that it should not b attempted unless the national income is "high."

Taxation and Enterprise

The Twin Cities plan would maintain high corporation taxes, but all the plans remove double taxation and excess-profits tax.

All four plans agree that inept tax instruments ca seriously hamper private enterprise, and all agree that th prime objective of federal fiscal policy should be th stimulation of risk taking. In this respect there is a important tactical difference between the Twin Citie plan and the other three. The latter all recommend tha income taxes on corporations be lightened. (The Lutz pla recommends that they be abolished.) The Twin Citie plan, on the other hand, argues that "relatively heavy cor- porate income-tax rates are not as harmful to the privat enterprise system as are heavy individual income-ta rates." All the plans condemn double taxation of corpo rate dividends and suggest various devices which woul have the effect of taxing them only once.

During the latter part of the war corporations wer subject to a normal rate of 40 per cent and a tax of 95 pe cent on excess profits. The over-all maximum rate wa 80 per cent. The Ruml-Sonne and Lutz plans suggeste that these taxes be repealed. The Lutz plan would no obtain any revenue from corporations; the Ruml-Sonn plans would subject them to only a 5 per cent "franchise tax on net income and a 16 per cent tax on undistribute earnings. The CED plan does not go quite so far; it woul repeal the excess-profits tax, but it would install a fla 16 to 20 per cent rate on net income. The Twin Citie plan, pursuing the line of argument indicated above, con cedes only that the excess-profits tax should be repeale All other corporate net-income taxes, the plan hold should be retained.

The Individual Income Tax

In general, those plans which place relatively litt emphasis on the corporate net-income tax, and which,

he same time, repudiate the idea of a sales tax, place elatively heavy emphasis on the individual net-income ax. Ruml and Sonne, for example, who would raise only billion dollars from corporations, would raise 13 billion out of an assumed 18 billion in total requirements) via he personal income tax. The Lutz and Twin Cities plans, vhich favor a retail sales tax (see below), would place nuch more moderate burdens directly on the individual's et income.

The Ruml-Sonne and CED plans depend heavily on the personal income tax.

'he Retail Sales Tax

As noted above, both the Lutz and the Twin Cities lan suggest a federal retail sales tax. In Lutz's proposal uch a tax is necessary (at a rate of 10 per cent) because he vould extract nothing from corporations, and relatively ittle from individuals via the personal income tax. In the Twin Cities plan such a tax is necessary (at a rate of 5 per ent) because of the relatively low proposed rate on indi-idual net income. Both the Ruml-Sonne and the CED lans oppose a retail sales tax.

The Lutz and Twin Cities plans favor, the other plans oppose, a federal retail sales tax.

XVI

BUSINESS FLUCTUATIONS

The persistence of unemployment starting in 1929 has raised the question whether such periods have now become inevitable under our system.

THROUGHOUT our history the volume of business activity and employment has been subject to broad fluctuations. In most cases recovery from lepression has come promptly enough to prevent the listress that accompanies prolonged periods of unemploynent. In the depression which started in 1929, unfortuately, this was not true. In consequence an extraordinary mount of attention has been devoted in recent years to he question whether for one reason or another we have eached a stage of development where we must recognize hat a recurrence of such periods of depression and inemployment is an inherent characteristic of the Indiidual Enterprise System.

Minor fluctuations are only the price of progress and need not seriously concern us.

In approaching this question it is necessary to disinguish between the major upswings and downswings of usiness and the relatively minor fluctuations that coninually take place in any dynamic economic organization. Minor fluctuations in the various branches of industry re inevitable. It is desirable, of course, to use every preaution to prevent their becoming excessive. Such mild luctuations are, however, to no small extent the price of rogress. They provide the means by which a system of ndividual enterprise corrects its past errors, moves into ields of new and better production, and eliminates the nefficient producers. The real problem of business fluctuaion, therefore, consists not of these specialized and ocalized variations, but of the broad swings that affect he economy as a whole.

But the fear of another major depression is now a matter of general concern.

At the moment this problem is of special importance. At the close of the war everyone saw immediately ahead a period of rising business activity and increasing employnent, but industrial managers and their staffs have grave uestions as to what is to follow. Specifically, they are concerned with the issue whether we can maintain a ystem of peacetime production without a collapse of

employment—without again being faced with stagnatio of business and inability of millions of our workers t find jobs.

Causes of Major Fluctuations

Alternating waves of optimism and depression contribute to at least the extent of booms and depressions.

It is generally recognized that periods of sever pessimism are interposed between periods of excessiv optimism. Furthermore, it is generally accepted as a fac that alternating swings of optimism and pessimism are i themselves a contributing factor, if not to the booms an depressions themselves, at least to the extent to which th fluctuations go in both directions.

During a time of good business with rising wage increasing employment, and improving profits, there is powerful tendency to be less cautious than normally an to make commitments which at other times might b considered imprudent. This air of optimism spreads to greater or lesser extent throughout the whole economy An individual may buy a lot and incur indebtedness fo the building of a house, frequently at a total cost whic he can carry only so long as the tide of prosperity con tinues; or he may buy a new automobile, or new furnitur or may decide to take a "flyer" in stock or real-estat speculations. Businesses are subject to the same virus. Man of them undertake expansion programs, make contract which under more normal circumstances would b unattractive, and begin to regard the outlook as so brigh that they need no longer set up the usual reserves to mee future contingencies. Likewise, many banks and othe lending institutions tend to lose their perspective and eas their credit standards, and thus, through making loan that ordinarily would be considered too risky, facilitat and promote the upward swing of business activity.

Conversely, during times of declining wages, lessen ing of employment, and decreasing profits, businessme hold back in the making of commitments, and banks an other lending institutions become more conservative i the making of loans. Such policies necessarily contribut to the downswing.

It is these characteristics and their ramificatio

ich give accuracy to the phrases "upward spiral" and wnward spiral." In other words, both the upswing and downswing in a "business cycle" are, at least within a ited time span, self-aggravating and self-perpetuating.

These observations, nevertheless, provide only a tial explanation of the real cause or causes of the broad ngs of business activity. They merely indicate why, e an upswing or a downswing gets under way, it con- ues for a time and perhaps goes substantially beyond point justified by underlying conditions. To get to the rt of the problem of business fluctuations, we must to other considerations—to basic causes. Four such ses may be noted:

But the basic causes of broad up-swings or downswings of business activity are found else-where.

The Misuse or Over-extension of Credit.

It always is difficult to distinguish just what is meant "misuse of credit," and it is even more difficult to isure the extent of such "misuse" at any given time. in broad terms the meaning of the phrase is easily lerstood. Sometimes it takes the form of an over- or lerextension of credit by commercial banks—that is, re or less credit in the aggregate than the underlying iness conditions and the outlook justify. At other times akes the form of a misuse of credit by the borrowers. the former case we have the development of a specu- ve or inflationary boom in some part of the economic em. This boom may be in the prices of land or com- dities or securities. When the overextension of credit s too extreme, as in commodities in 1918–1920, or as in rida real estate in the 1920s, or as in securities between 6 and 1929, it can be only a matter of time until a apse occurs which will have more or less extensive cts throughout the rest of the economic organization. a downtrend of business the misuse of credit ordinarily es the reverse form. Because of pressure for liquidation n lending institutions, new loans are not made avail- where needed and outstanding loans are not renewed en they mature. The result is that individuals and busi- organizations may be needlessly thrown into bank- tcy. On both the upswing and the downswing in the

1. The misuse or overexten-sion of credit may affect one part, then the rest, of the eco-nomic system, causing a boom —then a collapse.

business cycle, therefore, the "misuse" of credit may b
powerful and, perhaps, even a predominant factor.

2. *Natural Disasters*

2. Natural disasters may affect the stability of business over wide areas but are likely to affect the whole economy only in smaller nations.

World-wide depressions are not caused by natu
disasters, but such disasters are none the less importan
an influence on the stability of business for fairly w
areas. In highly specialized agricultural areas crop failu
are likely to be the most important natural disast
although, at least theoretically, floods, earthquakes,
fires also may be major disturbing elements in the busi
trend. Even in the United States this is true for localit
but such disasters are of minor importance in relation
the country as a whole. In some smaller nations, howe
they may so curtail the volume of purchasing power
the command of a substantial portion of the populat
that the entire economic system is thrown out of line
a deflationary spiral is started.

3. *Broad Disturbances of Either Economic or Milit Character*

3. A broad disturbance, either economic or military, in a major nation may affect greatly the economy of other nations.

The outbreak of war on an extensive scale, the de
opment of some new great industry, or the skyrocket
or collapse of business in some country with which a na
is closely identified economically, may bring about e
in the latter nation such broad dislocations in the nor
channels of production and trade that repercussions
be felt throughout its entire economic system. The pot
tialities of these factors as causes of business fluctuat
necessarily depend upon the importance of the respec
disturbances. Such a disturbance in one of our m
nations, however, may be of controlling importance
is also worth noting that such a development may be c
pletely beyond the control of other nations affected b
In other words, even with the wisest government
business policies conceivable, a nation still may be car
to boom levels or thrown into a depression because of w
occurs in some other country.

4. *Acts and Policies of Government*

Government action may cause widespread fluc
tions in the economic system either through artifici

ating booms, or through taking action, in one way or ther, which throws the economy into a tailspin. Among ernment policies which may lead to business disturb- es are:

4. Government action may cause widespread fluctuations; as in its control of money and credit, its use of spending stimulants, its regulation of investment, production, or trade, its imposition of taxes, or its competition with business.

:) Overexpansion of money and credit
) Adoption of a policy of "bad money"
) Excessive government spending, especially of funds borrowed from banks
) Abrupt withdrawal by government of spending stimulants which have, because of overuse, been responsible for the development of a preceding boom
) Arbitrary and drastic regulation and interference with the investment market and its institutions, and interference with the possible or probable realization of satisfactory yields on investments
) Imposition of restrictions on production or trade that stifle business enterprise
;) Imposition of restrictions on the international movement of goods
) Favoritism toward one section of the population at the expense of another
) Imposition, or the threat of imposition, of unbearable burdens upon producers in the form of taxes or direct expenses of some other kind
) Drastic changes in labor, wage, and price policies which adversely affect confidence of business managers in the future
:) Maintenance of wage rates in the face of declining demand for goods or services
) Adoption of a policy of either actual or threatened government competition with business

Returning to the problems as a whole, it may be l that of these four great causes of business fluctua- is the first three—misuse of credit, natural disasters, broad disturbances of economic or military character re ordinarily dramatic and spectacular, so that, when of them is the immediate cause of a depression, it is

Government action is the least obvious cause of business fluctuations, but the

record shows it as a factor of major importance.

relatively easy to assign the blame. Governmental actior a cause of depression, in contrast, is usually not so specta lar and, in consequence, it is not easy to point to particular development as the immediate cause of downswing.

Governmental Policies Contributing to 1929 Breakdown

The main factor in the depression starting in 1929 was the extensive and increasing misuse of credit;

In the depression of 1929, for example, the imr diate cause of the sudden downturn appeared to be break in securities prices. But the inflation of the secu markets leading to the break at that time was not the o cause of the depression. Far from it. It would be m accurate to say that the stock-market inflation was it the result of various more basic factors, both private governmental, all of which contributed to the stre and strains which developed within our economic syst during the 1920s. But at the moment the break came, great factor stood out in importance beyond all oth This was that over a period of time there had been extensive and increasing misuse of credit in this count and the high spot of that misuse of credit was in security markets. Without the collapse of the market is probable that there would have been a depression, that it would have been milder and shorter.

but misdirected government action also was responsible.

Misdirected governmental action contribu extensively to the conditions leading to the 1929 deba just as it did to the depression of the nineties, of seventies, etc. In the 1920s, just as in the earlier cases, features were permitted to creep into our economic tem—errors which had a cumulative effect. Such err of course, were not deliberate, and it is unjust to castig either business or government for them. Both me reflected the spirit of the time—the feeling during twenties, for example, on the part of almost everyone— public, businessmen, and government—that only g times were ahead. What is said here, therefore, is not the purpose of "blaming" someone, but merely, with advantage of hindsight, to explain what happened.

It is now clear that in the twenties we permitted

tinuance of defects in our banking organization and development of policies in our Federal Reserve System commercial banks which resulted in building up a erstructure of credit on standards that in many respects e unsound. Through failure to apply the available dit brakes we allowed a credit expansion that blossomed one of the greatest speculative inflations of all time. investment bankers, encouraged by government, de billions of dollars of foreign loans, which tempor- y had a stimulating effect upon our economy. But ny of them were made without adequate attention to ether the loans could provide the foreign exchange h which to service the debts, and with a minimum of sight as to what must happen to the loans in case of ld disorders. We continued to impose on the inter- onal movement of goods restrictions which in many s were unnecessary for the welfare of domestic pro- ers. And we failed to realize that, although commodity es were stable, they were stable because of the infla- ary policies being pursued—that in the absence of inflation the general trend of commodity prices ld almost certainly have been downward.

The Federal Reserve System failed to apply credit brakes.

Government encouraged risky foreign loans.

Restrictions were continued on international movement of goods,

In practically every instance these errors had their ndation, if not their direct motivation, in govern- tal policy. The administration of that day, on the rnational side, failed to appreciate the changes that been brought about as a result of World War I and importance of our having shifted from the position debtor nation to that of a creditor nation. That is, pite of the fact that the rest of the world was in debt us on balance, we continued the policy of putting dles in the way of other nations' meeting this indebted- by selling us more goods than we bought from them. this way we forced them to call upon their meager ncial resources in order to pay us and thus kept them ler continuous pressure.

though we had shifted from a debtor to a creditor nation.

On the domestic front, through those years, the ninistration saw what it thought was general prosperity concluded that there was no cause for worry. It ely ignored the spotty character of the prosperity and bad trends that were developing under the surface. It

adopted as the keystone of its policy the mistaken that we were in a "new era." Worst of all, it permitted continuation of credit policies on the part of both Federal Reserve System and our commercial banks wl it is now clear could scarcely have been better desig to lead to speculation, an inflationary spiral, and l collapse.

Public opinion, however, supported the inflationary policies pursued by business and government.

The result of these governmental policies in twenties—and again it should be emphasized that were in harmony with general public opinion at the t and world opinion as well—could not be other than astrous. In looking back at this period, therefore, and no desire to absolve either business or individuals in gen it is clear that a substantial portion of the cause of w happened later rests with the government.

Businessmen as citizens have a definite responsibility for national policies, and as managers to run their businesses so as not needlessly to encourage unsound policies or practices in the nation.

The individual businessman, as a citizen, has a d nite responsibility to encourage and foster sound nati policies. But this is his responsibility, not as a business but as a citizen, and in the performance of this func he is merely one among millions, although perhaps unusually influential one. As a businessman per se responsibility is to run his company and to make that it does not needlessly contribute either directly indirectly to the adoption of unsound or unten national policies. This is a grave responsibility in and itself, but at the same time it must be kept in mind tha individual businessman, as such, can actually determ for the country as a whole, policies on conditions of co petition, on prices, on international trade, or even on w and hours. These are all matters which are merely a p of, and have to fit into, the general economic and so environment of the country as reflected in its laws established practices to which everyone must confo That general environment must be determined by citizens as a whole, under the leadership of those wl view is of our economic and political system as a whole

Factors in 1937–1938 Decline

The sharp decline of busi-

In the 1937 decline there was no single factor co parable with the stock-market collapse in 1929 wl

›d out in the public mind as the immediate cause of the ık. The 1937 depression, in which the rate of decline the sharpest in our history, was the result of the devel- ıent of a fundamentally weak situation, involving a ıbination of factors which to no small extent consisted unwise or badly timed governmental actions, which lly attained a weight which the economic system could bear. Among the more immediate of these were:

ness activity in 1937 was due in no small extent to badly timed government actions.

1. The tolerance of sit-down strikes with deliberate illegal seizure of property as a means to enforce the ıands of labor, and the failure of the federal and various the state authorities to prevent such seizures. There even an indication by some government officials that se seizures might be lawful.

2. Statements by government officials that many ustrial prices were too high. This necessarily created fusion among businessmen as to what policies could be ly pursued.

3. The proposal to reorganize the federal judiciary em, including the Supreme Court. This raised the stion whether we were moving toward a completely tralized government in the United States, with impair- ıt of our constitutional rights and removal of our litional constitutional protection of minorities.

4. The arbitrary tightening of interest rates through sterilization of gold imports and an increase in the rve requirements of member banks. This action might e been desirable if it had been taken at the proper time against a different background; but, under existing ditions, the net effect was a severe shock to our eco- ıic organization.

5. The imposition of a tax on the undistributed fits of business, which not only materially increased burden on business but as well raised the whole question he future value of private investment in this country.

6. The sudden and drastic increases of wages, sted by government labor policy, just at the time when government was sharply curtailing its pumping of rchasing power" into the economic system.

Cumulative factors were impairment of business confidence by tolerance of sit-down strikes; criticism of price level; proposal to reorganize the judiciary; arbitrary tightening of interest rates; taxation of undistributed profits; and sudden increases of wages when government was curtailing its pumping of other purchasing power into the system.

It is safe to say that probably none of these factors ıe, or occurring when the economic structure was

strong, would have caused a depression. It is further p haps safe to say that all of them together would not h started a downswing, had it not been for the fact t the economy had been overstimulated and weake through a long period of unwise governmental act which had resulted in a "consumption goods prosperit, as contrasted with a well-balanced prosperity based u a backlog of investment as well as consumption.

The preceding expansion (1935–1936) was due primarily to government spending: extraordinarily large federal deficits, financed through the banks, whose deposits were thus artificially swelling; bonus distribution to ex-servicemen; and a great public-works program which increased employment temporarily.

The Artificial Preceding Boom

In other words, the 1937–1938 decline was example of the well-known fact that business depressi usually have their origins in preceding booms. In instance the preceding boom had been in 1935–1936 was of short duration because the expansion was due marily to government spending and hence could last o so long as the spending continued. More specifically causes of the boom were:

1. The overstimulation and undermining of whole economy in 1935 and 1936 by extraordinarily la federal deficits, which were financed in large measure the sale of government obligations to the banks and the fore resulted in a vast expansion in bank deposits.

2. The bonus distribution to ex-servicemen wh in a matter of a few weeks poured over a billion dol of effective purchasing power into the income stream. expenditure of the bonus funds brought a short-li boom in retail trade with its inevitable sequel—a period reduced purchases.

3. The great public-works programs which brou temporary employment to hundreds of thousands workers.

With fear of inflation, investors and businessmen naturally tried to protect themselves and their stockholders.

4. A wave of inflation fear which caused the bidd up of prices of common stocks and commodities induced many business concerns to accumulate protect inventories. This fear of inflation was merely the refl tion in public thinking of an imposing array of danger government policies, including heavily unbalanced bu ets, politically inspired handouts of Treasury funds, threat of continued credit expansion, and banking polic

ich were potentially explosive. When history affords so ny instances where such policies have meant ruin to estors and businessmen, they were amply justified in ing to protect themselves and their stockholders under h conditions as were present in 1935 and 1936.

What Part Should Government Play?

So much for the part government has played in sing wide business fluctuations in this country in recent rs. What does this record indicate as to the proper iction of government? Does it mean that government uld remain aloof from the working of the economic :em?

It definitely does not mean that government should aloof. In a modern industrial nation government has a inct and inescapable function. This function is to ntain that environment which makes possible and ourages sound business policies. It is not the function government to manage or run business, for by its very ure it is unfitted for that task. Specifically, government uld establish legislative, regulative, and fiscal rules and administration of them which are conducive to sound iness policies and which, when carried out by individual inessmen with integrity and efficiency, will assure the tinued orderly functioning of the economic system.

Government should not hold aloof, however. It should establish rules that are conducive to sound business policies and, if observed, will assure orderly functioning of the economic system.

In retrospect, it is easy to see that during the twen- our government did not adequately perform this ction and that since 1929 its record on this score has n getting worse rather than better. Such a conclusion, hould be emphasized, does not indicate a conviction t with wise business and governmental policies all fluc- tions could be eliminated from our economic system. most that can be accomplished is to hold the scope of fluctuations within reasonable bounds and prevent r developing to the point of major booms and depres- is. The attempt to go beyond this is certain to have ad effect upon the economy as a whole and upon the fare of our people. Constant readjustment is the price progress. In our business structure there is necessarily onstant ebb and flow of ideas and productive methods.

In a free economy fluctuations are normal, but can be held within reasonable bounds by wise business and government policies.

These reflect not only upon the future of any partic concern in question, but as well upon the success o competitors and upon the welfare of the public at la A new invention or a new productive process may m obsolete a large portion of the existing machinery equipment possessed by the industries concerned, or a industry may virtually bring to an end some other inc try, as the development of the automobile brought to end the carriage industry. All of this, as just stated, is price of progress. It is the mark of a dynamic, wide-aw forward-moving economic system.

Under authoritarian government, it is claimed that fluctuations can be eliminated; but only by keeping down output per individual and by abridging individual freedom.

The Choice between Freedom and Dictatorship

Believers in authoritarian forms of government course, take the opposite view. They maintain that systems which they sponsor will eliminate business fluct tions and provide a steady volume of employment production. What they fail to state is that when busi is thus conducted by men holding government of whether directly with the government as owner of means of production, as in Russia, or as arbitrary dicta of the use of privately owned means of production, a Germany, fluctuations in the volume of goods and emp ment can be kept down only at a relatively low volum output per employee and only at the expense of serio abridging the freedom of the individual.

The individual, under an authoritarian government, must work at jobs and on terms dictated, use goods produced according to a planning board's decision, and live within the means and instruments of culture offered by the planners.

In other words, an inherent part of these syst from the economic point of view, is to impose upon citizens, regardless of their private desires or sentim certain definite rules. Specifically, the individual u such a system must

(1) work at those jobs selected for him by the gov ment, at such wages and for such hours as it determine;

(2) accept as a consumer the goods produced in acc ance with the decision of some governmental p ning board which is concerned with the use t made of the raw materials and resources avail in the nation;

) lead his life within the planned means and instruments of recreation and culture made available by the planners.

Under the Individual Enterprise System we find in : of peace almost the exact reverse of this situation. in to be specific:

) Nobody orders a worker to enroll for a given job, rather than for something else he would prefer to do.

) Nobody says to a worker that he must take a job in one locality rather than in another, or in, say, a copper mine rather than in a wheat field.

) Nobody says that an American citizen may not buy, say, sugar or felt hats, because certain planners have decided that there should be no sugar or felt hats in a given year in order to make room for an increased quantity of butter or bicycles.

) Nobody tells the individual citizen that in a given year he may go only half as often to the movies, or read only half as much news in his paper, because the energies required to produce the other half of the movies or the newspapers must be used in the creation of other products.

Under the American system, the individual may choose his kind and place of work, and how he will spend his income.

The authoritarian form of government, whether it s the form of communism, socialism, or fascism, to at, has a chance of eliminating fluctuations in the me of employment for only so long as the citizens ne nation remain obedient to the decisions of arbitrary, otic planners as to what they shall work at, where shall work, and exactly how they shall live.

As contrasted with this, it is true, a system of indial enterprise, with its freedoms for the individual, is ect to more fluctuations. And it is desirable that this ld be so. Such fluctuations come from the fact that ple are able to make their own choices as to what they buy; hence they determine which companies are to ease production and prosper and which companies, use they no longer offer what the public wants, are rop by the wayside and fail.

With arbitrary authority and an obedient public, a government might provide full and steady employment while its power lasted; but some fluctuations must attend an economy in which the people have free choice.

A Specific Program for Government

Every effort should be made in a free economy, however, to hold fluctuations within narrow limits.

And experience has shown us the principles, policies, and practices that will serve this purpose.

This does not mean, of course, that nothing can done to minimize the fluctuations in an economic syst characterized by human freedom. We must make ev effort in this direction commensurate with our basic fr doms. But the task is not one of attempting to elimir the fluctuations in the production of individual busines but rather to hold within narrow limits the fluctuati which involve the economic system as a whole. Much be done to accomplish this objective. We know fr experience that there are certain principles, practices, policies which, if followed, are conducive to sustai prosperity—sustained prosperity in the sense of empl ment for our workers, good wages, constantly increas volume of products, and an ever-improving scale of liv

In general terms, the most important of these r of action are:

1. Encourage private saving and maintain a convenient investment market.

1. Encourage private saving, and maintain investment market which will assure that the savings the community can find their way economically employment for the benefit of all concerned and soc as a whole, through the development of new enterp and the financing of established enterprise.

2. Keep out rigidities that prevent normal adjustments, such as arbitrary restrictions on prices, wages, output, and distribution, whether imposed by government or business management or labor.

2. Permit the economic system to make readily th adjustments which prevent the development of dan ously unbalanced conditions, by

(*a*) preventing all arbitrary and monopolistic rest tions, either governmental or private, on prices wages and on the production and marketing products;

(*b*) maintaining conditions of fair competition throu out the economic system;

(*c*) discouraging the development of labor policies b upon the restriction of output and of other poli relating to wages, hours, and production which t to undermine the stability of the price level, incr costs, reduce production, and increase unemp ment.

3. Avoid the imposition of taxes which plac

dicap upon and discourage the accumulation and pro-
tive investment of savings by private investors.

4. Establish and maintain a money and banking em which makes possible an adequate and essentially collapsible supply of money and credit for productive poses, but which, at the same time, does not lead to a amiding of credit and the abuses of government spend- installment credit, or inflationary or speculative rises he prices of commodities, securities, or real estate.

5. Coordinate the administration of all government cies relating to taxation, money and banking, govern- it spending, and other matters of broad economic ort, and make clear the principles upon which such cies are based in order that business may adequately n for the future.

6. Limit government spending to constructive pur- es and keep the total within reasonable bounds in rela- to national income, so that the public debt may be l to a level which does not constitute a threat to rency stability, which does not impose undue taxes on public to meet interest and amortization requirements, which does not leave an insufficient margin of public lit to meet domestic or foreign emergencies. During sperity, pay off the public debt as rapidly as possible.

7. Avoid unnecessary disturbances to the confidence the public in the long-term trend of the Individual erprise System—such disturbances as are caused by ernmental antagonism to business conducted by the ple in their private enterprises; by governmental com- tion with business; by the imposition of uncalled-for rictions; by the substitution of discretionary regula- is for clear-cut policies as formulated by law; by the nsorship of so-called "reform" measures which, if cted, would enforce unbearable burdens upon our pro- tive organization; or by the levying of taxes in a way to a degree which unnecessarily curtails individual erprise.

3. Avoid taxes which discourage productive investment.

4. Assure adequate and noncollapsible money and credit for productive purposes.

5. Coordinate and clarify government policies of economic import.

6. Limit government spending to constructive purposes and keep total within reasonable bounds.

7. Avoid unnecessary disturbances of public confidence in the long-term trend of our economic system.

A Specific Program for Business Management

Those seven points are largely matters of govern- ntal policy. But there is more to the problem of main-

Some general and specific

policies need to be followed by management.

taining business stability than mere government pol
Business management also has a distinct responsibil
The following precepts refer to what private industr
such should do:

1. Management's responsibilities to stockholders require that businesses be operated with due regard to the interest of the nation, employees, and community.

1. Business managers should accept the responsil
ties which they owe to the nation, to the consumers of t
products, the people they employ, and the owners of t
enterprises, and they should not attempt to shift respo
bilities to anyone else. Their place as business mana
indicates their responsibility to the nation and the c
munities of which they are a part. Business mana
should recognize that the advantages they obtain are c
pensations for the benefits that they give to the nat
their employees, and the communities in which t
operate. Their responsibilities to their stockholders are
fully discharged if the businesses that they manage ope
at a disadvantage to the nation, their employees, and
communities of which they are a part.

2. Seasonal valleys of production and employment should be filled.

2. Business managers should, insofar as feas
smooth out the seasonal valleys of production and emp
ment. This has already been done by many companie
seasonal declines happen to coincide with general busi
recession, the latter is made much more serious.

3. Rigid prices and rigid costs should be avoided.

3. Business managers should, insofar as possible,
as far as consistent with the character of the industry
the interests of the employees, customers, and stockhol
maintain flexibility and avoid both rigid prices and r
costs.

4. Expansion should be undertaken only after careful consideration of factors involved.

4. Business managers should realize that period
prosperity may not be permanent and should give car
thought during such periods to the dangers of h
unconsidered expansion. They should study carefully
demand for their products and thereby guard ag
building excessive inventories. Plants should be expa
only after taking careful account of such factors as

(*a*) existing facilities in the industry;
(*b*) expansion already under way in the industry;
(*c*) normal demand for its products;
(*d*) the effect of proposed new plant facilities upon
duction costs.

5. Business managers should, where consistent with [...]d plant operation, build during periods of low cost. [...] also is likely to be most profitable to the company [...] furthermore, it will provide additional employment [...]n it is most needed.

5. Low-cost periods are most suitable for building.

6. Business managers should use periods of recession [...]nake repairs and improvements which can reasonably [...]eferred when trade is good.

6. Also for repairs and improvements.

7. Business managers should make every effort to [...]nge the capital structure of their companies so as to [...]ntain the maximum feasible degree of safety in any [...]e of the business cycle. Disproportionate fixed charges [...] not only impair flexibility but even jeopardize sur[...]l through a long depression. Insofar as practicable, [...]ugh its own action, business should reduce its fixed [...]ges, including bond service, and should avoid over[...]talization or excessive financing with borrowed [...]tal.[1]

7. Capital structure should be arranged and adjusted for maximum safety through good times and bad.

8. Business should be conservative in granting and [...]ing credit. A company should realize that it should [...]act as a banker for its customers and should not seek [...]king facilities from its suppliers. The extension of [...]it, of course, is a legitimate and proper business prac[...] but it can become dangerous if credit is granted in [...]large amounts or under too liberal terms. In general, [...]it should be employed only to facilitate the normal [...] of goods, not in a way which will assist or encourage [...]ulative activity or attract unsound credit risks.[2]

8. Extension of credit to customers and use of credit as customers should be conservatively practiced in relations between business concerns.

9. Business managers should carefully observe and [...]y the margin between total costs and selling prices, [...] analyze both original and replacement costs. Such [...]y permits action which tends to assure fair, average

9. Continuous study should be carried on of costs in

[1] The constant changing of taxes makes it exceedingly difficult for this policy [...] followed with success and makes it all the more imperative for business to be [...] careful in making plans for the future. A capital program which is perfectly [...] under one set of tax conditions may become thoroughly unsound with a change [...] tax laws.

[2] One test of sound credit lies in the self-liquidation of the advance within [...]riod of its extension. In addition, with particular respect to consumer's credit, [...]onsideration must be given to the capacity of the buyer to pay and the value of [...]curity involved. In general, the terms under which consumer credit is granted [...] be tightened during periods of prosperity and eased during periods of declining [...]ss.

relation to prices.

profits and to avoid rigidities. Examination of bus failure records reveals that in nearly 30 per cent o failing companies there were inadequate cost-accour records.

10. Adjustment of prices in periods of recession may help to sustain employment, reduce losses.

10. Business managers should realize during pe of recession that this condition may not be permanen that it is possible, in the case of many commoditie maintain the volume of sales by prompt adjust in prices to conform to buyers' lowered purch power. Such a policy may help to sustain employ reduce losses, and thereby contribute to the ge welfare.

11. Efforts to increase volume should be made.

11. Business managers in time of depression sh take advantage of every sound means to gain an inc in volume. This will result in the creation of new em ment and bring more capital into use.

12. In good times, build up reserves and credit.

12. Business managers in time of prosperity sh build up adequate reserves and borrowing abilit order to meet any later setbacks that may occur.[1]

13. Losses may be due to lack of flexibility; failure to recognize dying markets; development of better products; and other causes that could be discerned in time to anticipate effects. Such avoidable losses reflect unfavorably on management.

13. Business managers should operate to avoi minimize losses of whatsoever kind that in the end be absorbed by the business itself or by its creditors stockholders. Such losses are a constant indictment o free enterprise system, a reflection on the manage of the business, and a menace to the future econ security of the nation. These losses are often indicat declining wages, deterioration of equipment, and gr unloading of the personnel on the community a effectiveness of the business declines. It must, how be recognized that often in many industries losse entirely unavoidable, and they are an essential part c free enterprise system as such. But when analyzed hi cally it has been demonstrated that many such losses often resulted from lack of flexibility; from failu recognize dying markets, development of superior ucts, changes of the transportation situation, shifti the labor market; and from other causes that wer cernible but not recognized at the time.

[1] With the present tax laws the creation of reserves is exceedingly and business is able to do only a limited amount in this direction. It is im nevertheless, to keep the policy in mind with a view to doing the best that is

The Road to Sustained Prosperity

These points, to repeat, are some of the more impor-t elements necessary to secure sustained prosperity in nodern industrial nation. They should be the guiding nciples of government and business policy during iods of good business or during a period of depression order to restore prosperity.

If government and business would follow such poli-, it would not mean that every individual business uld prosper, or that every business would stay on an n keel, or even that grave errors would not be made, m time to time, by this or that group of businessmen in or that portion of our economic system. Nothing can re those results. But policies based upon the above nciples would assure that the effects of these errors uld be minimized. The businessman who made errors is inventory policies or in his production schedule, the anization which got out of line on prices, and the bank ch became too lenient in its credit policy would quickly brought up short through the operation of competition made to clean house and pay for its errors. In a word, h such governmental and business policies, the system ndividual enterprise would be permitted to function ctively and to confer an uninterrupted stream of bene-upon society as a whole.

Even with fairly general observance of these policies, individual business failures and occasional economic dislocations would not be avoided; but our economic system would function effectively and society as a whole enjoy its continuous benefits.

There is one further point which is worthy of note connection with such policies. This is that such a gram would not eliminate all governmental regulation business. With such policies there could and should be ulation of business procedure, and Congress and our slators should provide such laws as necessary for the tection of those unable to defend themselves. This gram, in other words, would not bring about even roximately a "free system," in the sense of no govern-ntal supervision. The difference, as compared with what now have, would be that, in case these policies were owed, laws would be drafted and administered with a v to strengthening the basic qualities of the American ividual Enterprise System—flexibility, competition, and incentive that comes from the assurance that every man l be permitted to enjoy, to the fullest extent consistent h the public good, the fruits of his own labor.

Government supervision would continue, but to strengthen private enterprise and protect flexibility, competition, and incentive—its basic qualities.

XVII

ACHIEVEMENTS UNDER THE ENTERPRISE SYSTEM

AMERICA'S progress during the past century and a half—the rise in individual well-being, in wealth, in income, in security, in the scale of living—has uly been one of the miracles of mankind. No one factor is been responsible for this progress. The character of our ople, our abundant supply of natural resources, our rm of government, the type of business system we have eveloped, the international environment in which we ive operated—all these and many other factors have ayed their part.

America's progress in about 150 years of national life has been one of the miracles of mankind.

Nevertheless two of these things have been of out-anding and dominating importance in our development: ir system of representative democracy and our system individual enterprise. The establishment and main-nance of both of these have been, if you will, a reflection the character of our people—of their determination to free, to worship in their own way, to enjoy freedom speech and the right of assembly, and to work and enjoy e fruits of their own labor. But our representative mocracy and our enterprise system have been more than st a reflection of the character of our people. They have en in and of themselves independent, positive forces aking for progress. Without them, regardless of our tural resources, the international environment, or the aracter of our people, we could not have enjoyed such iritual, cultural, and material development in the past 0 years. And without them we could not look forward the future with such confidence.

The two outstanding factors have been our systems of representative democracy and individual enterprise.

There is a further point in connection with the part presentative democracy and the enterprise system have ayed in our development which is important to bear in ind, especially in thinking of the future. This is that evitably and irrevocably the two go hand in hand. One

The two factors are inseparably connected.

cannot have the freedoms and rights of democracy unl there is a system of individual enterprise. Conversely, o cannot have a system of individual enterprise witho representative democracy. They are the two halves of circle that make a whole. And they are the only two hal that can be fitted into the whole which we know as t American Way of Life.

The achievements to be discussed are the result of our enterprise system in conjunction with the other phases of our American Way of Life.

In discussing the achievements of the enterprise sy tem, therefore, we do not mean to imply that these a solely the result of our Individual Enterprise System. Th are the results of its operating in conjunction with, and a part of, the political, social, and economic environme of the past century and a half.

Let us turn, then, more specifically to just what l been accomplished in the way of economic progress our nation up to this time. It is not possible here, course, to give more than the high spots, but these a sufficient to warrant the statement made above that c record has been a miracle of mankind.

Productivity per Worker

The record of production in relation to number of workers and total population is an important index of economic progress.

The logical starting point for getting a broad p ture of the achievements under the enterprise system is t record of production. Only through production do get the goods which are necessary to raise our scale of l ing. And it is not just the total volume of producti which is important, but rather the production per wa earner; that is, the volume of production in relation the population. Unfortunately, we do not have adequ data for the earlier years of our nation to trace the tre of production in this way. Figures are available, howev for the period since the Civil War. They show a tr amazing record. Not only has our production increased leaps and bounds, but it has increased much more rapi than our population.

The output per worker in manufacturing doubled between 1860

More specifically, between the time of the C War and 1900 the output of manufacture in this coun per wage earner in manufacturing just about doubl This means that for every worker in manufacturing tablishments in the United States there was twice as mu

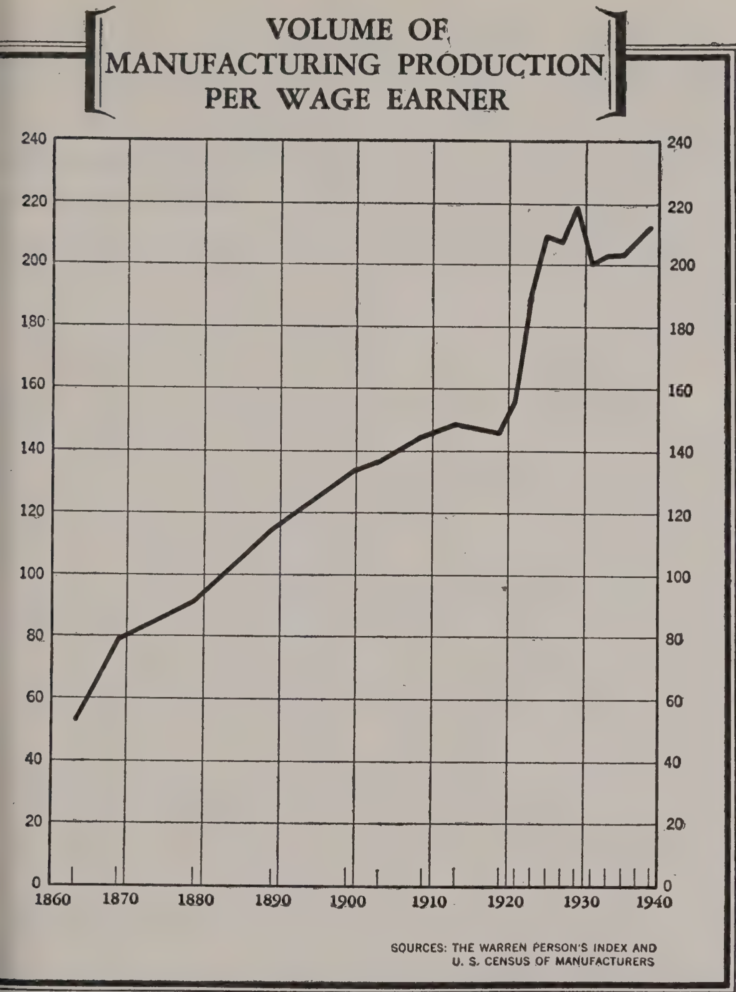


Chart I

oduct at the turn of the century as there was at the time the Civil War. Since the beginning of the present cen-y and up to 1929 this progress was continued, with the ult that the volume of production per factory wage ner again was doubled. Taking the period from the il War as a whole, then, and in spite of the reduction the number of hours worked as shown later, the volume output per factory wage earner in 1929 was about four es as great as it was in the 1860s.

and 1900, and again between 1900 and 1929.

In Chart I this record is shown graphically together h what has happened since 1929. In examining this rt it should be borne in mind that the curve does not

represent the aggregate volume of manufacturing p duction in the United States, but rather the volume production in relation to the number of factory wa earners in the country. The enormous increase show therefore is not an increase which has to be divided amo a larger number of people, but the amount which, on average, is available to each such factory worker ev though the number of workers has increased enormously.

Effects of Increasing Investment

This increase was made possible by ever-increasing investment.

This great increase in production has been larg possible, of course, only because an ever increasing amou of capital investment was made in American manufa tures. At the time of the Civil War, as shown in Ch II, we only had about 2 billion dollars invested in man facturing in this country. At that time the nation v predominantly agricultural. After the war, however, m and more capital poured into our manufacturing ind tries, which meant that our workers were given more a more mechanical aids with which to carry on their dut By the turn of the century the total investment was the 10-billion dollar mark. From then on investment creased at an even more rapid rate and by 1929 excee 60 billion dollars. Following that date, as a result of depression, there was a shrinkage of many billions of d lars in the capital investment. Owing to the necessities war production, however, the total, we may be sure, ev though exact statistics are not yet available, has passed 1929 figure.

At the time of the Civil War we had in manufacturing a capital investment of $800 per worker. In 1929 it had increased to $8,000.

To show what this great capital investment meant in terms of the individual worker, Chart III gi the capital invested per factory wage earner. It shows t at the time of the Civil War there was about $800 inves for each such wage earner, and that by 1929 this had creased to over $8,000. In other words, in 1929 our wo ers in manufacturing establishments had some ten tin as much capital equipment—tools, machinery, etc.—w which to turn out goods as the worker in a manufactur establishment had at the time of the Civil War. Anot way to put this is: whereas in the 1860s it took, on

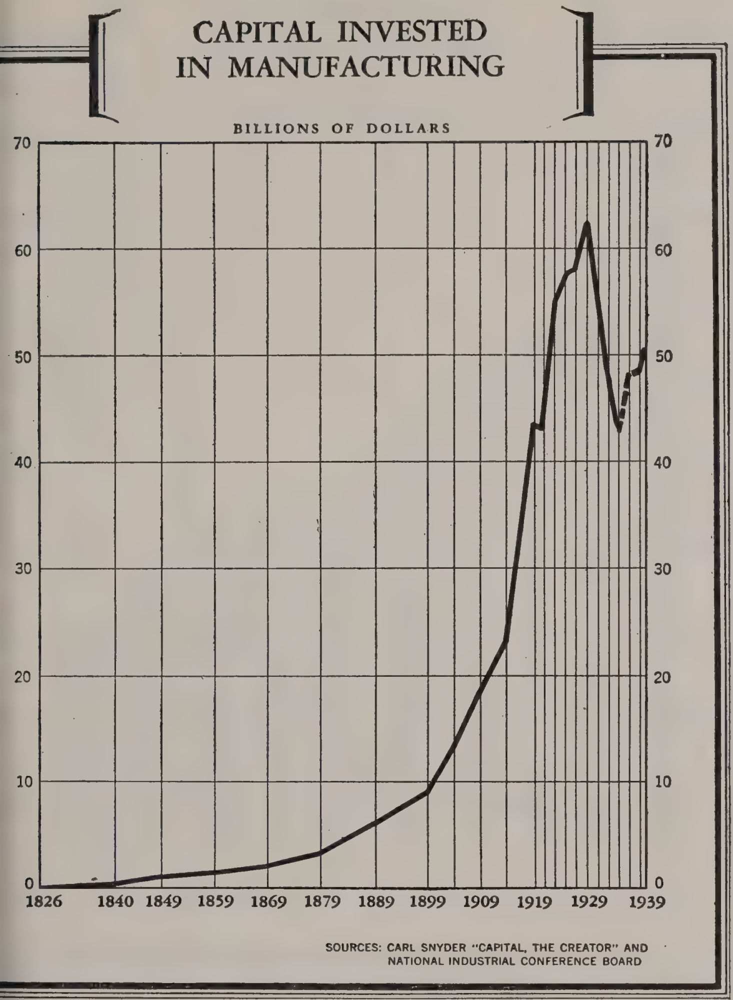


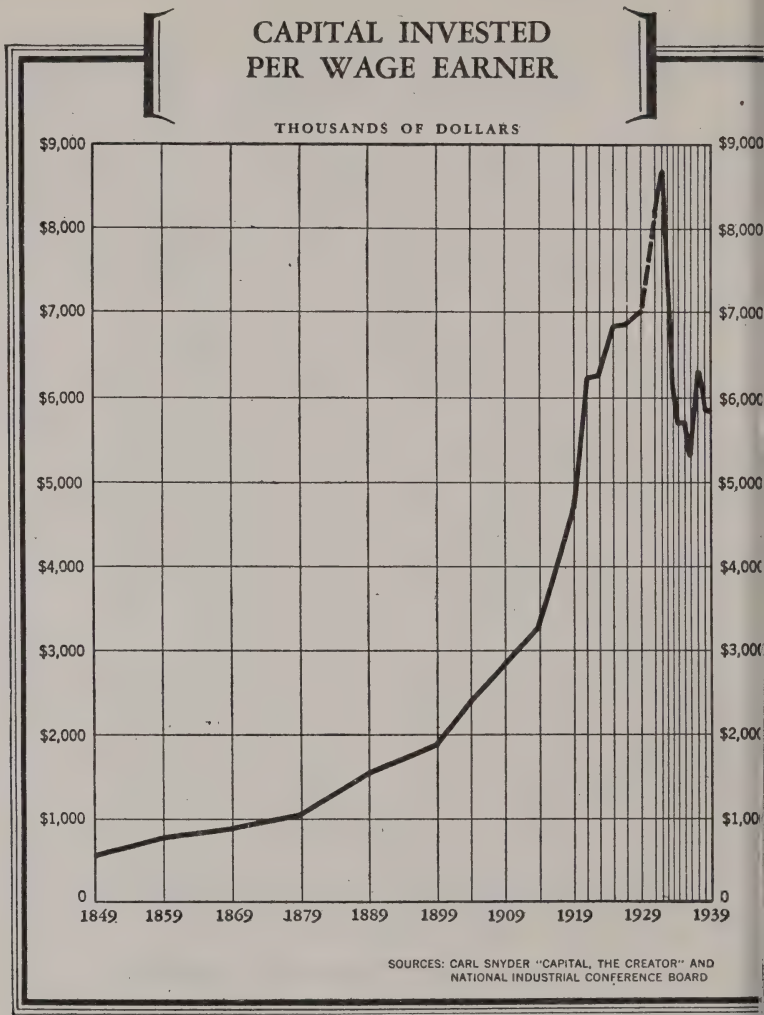
Chart II

erage, an investment of only $800 to provide a job for worker in manufacturing, by 1929 there was, on the erage, an investment of over $8,000 to provide a job for factory worker.

As a further indication of the mechanical aid given our factory workmen, it is interesting to look at the rsepower per wage earner. The statistics on this go back r only 40 years, but they give a picture that is extremely riking. As shown in Chart IV, in 1899 there was only l horsepower per factory wage earner, and by 1939 this d increased to 6.5 horsepower per wage earner. The merican workman today, in other words, has more than

In 40 years, 1899 to 1939, horsepower per factory worker increased from 2.1 to 6.5.

Chart III



three times as much "mechanical" power at his dispo
as the workman of only 40 years ago.

Increasing Real Wages

Physical production alone, however, is only one p
of the story of production. One must also consider
prices at which goods are sold in relation to wages. The lo
record since 1800 on these two items is given in Chart
This shows that, with the exception of the wartime
tervals of 1812–1815 and the 1860s, there was a gradua
declining price level until the 1890s, but that wages dur

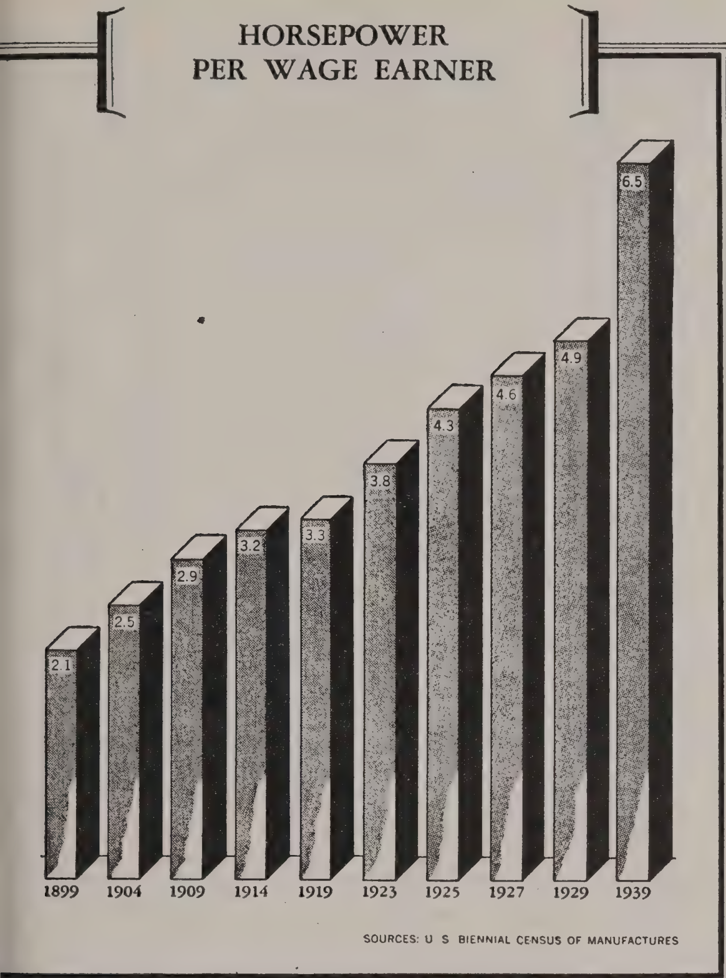


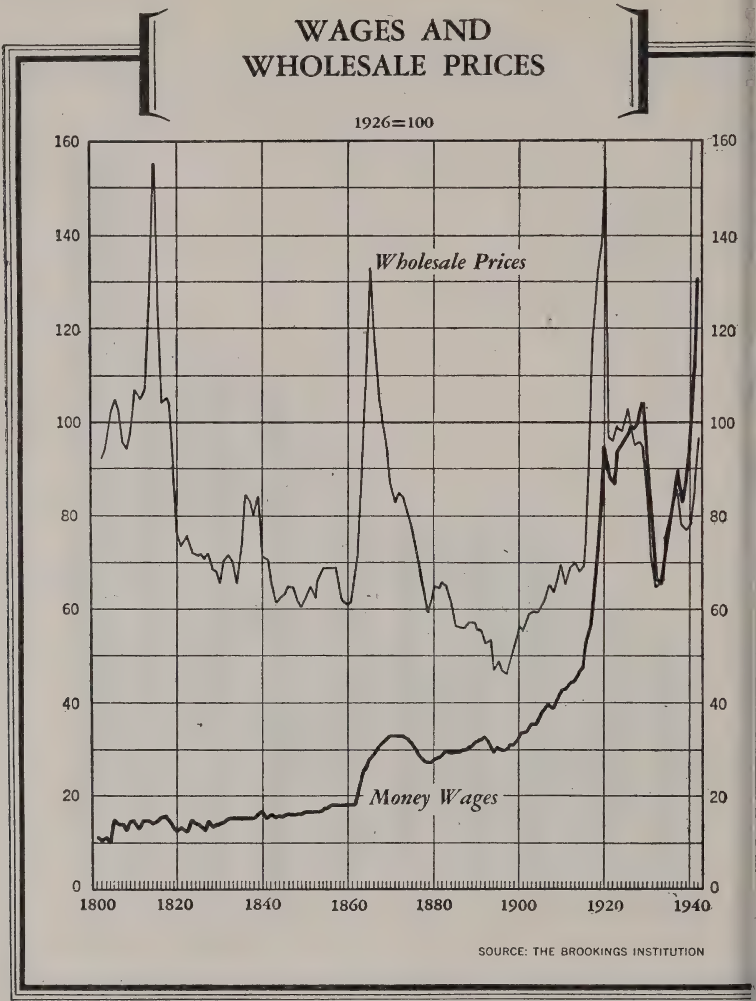
Chart IV

; period continued to increase. This meant, of course, 't the relative position of wage earners was getting ter and better. Beginning in the middle of the 1890s price trend started upward, but until the inflation World War I wages more than kept pace. Taking the iod as a whole, the record may be summarized by say- that in the 1920s over-all wholesale prices were approx- ıtely the same as at the beginning of the last century, wages were about six times as high as they were in 0.

Wages in the 1920s were about six times what they were in 1800, though whole- sale prices were about the same.

Economists use the term "real wages" to measure purchasing power of wages in relation to goods; and it

Chart V



Data on cost of living, available only since 1890, show that "real wages" have more than doubled since then, in terms of what an hour's labor will buy.

is real wages, of course, rather than money wages wh determine the welfare of a worker. In other words, wages do not increase more rapidly than the cost of l ing a workman is unable to improve his scale of liv regardless of how much his money wages may go up. I not possible to trace real wages except since 1890. Thi because, although we have wholesale prices back ove long period, as shown in Chart V, we do not have data retail prices of the items making up the cost of livi For the past 50 years, however, there are enough statis to make a sound comparison. This is done on Chart From this it will be noticed that since 1890 the

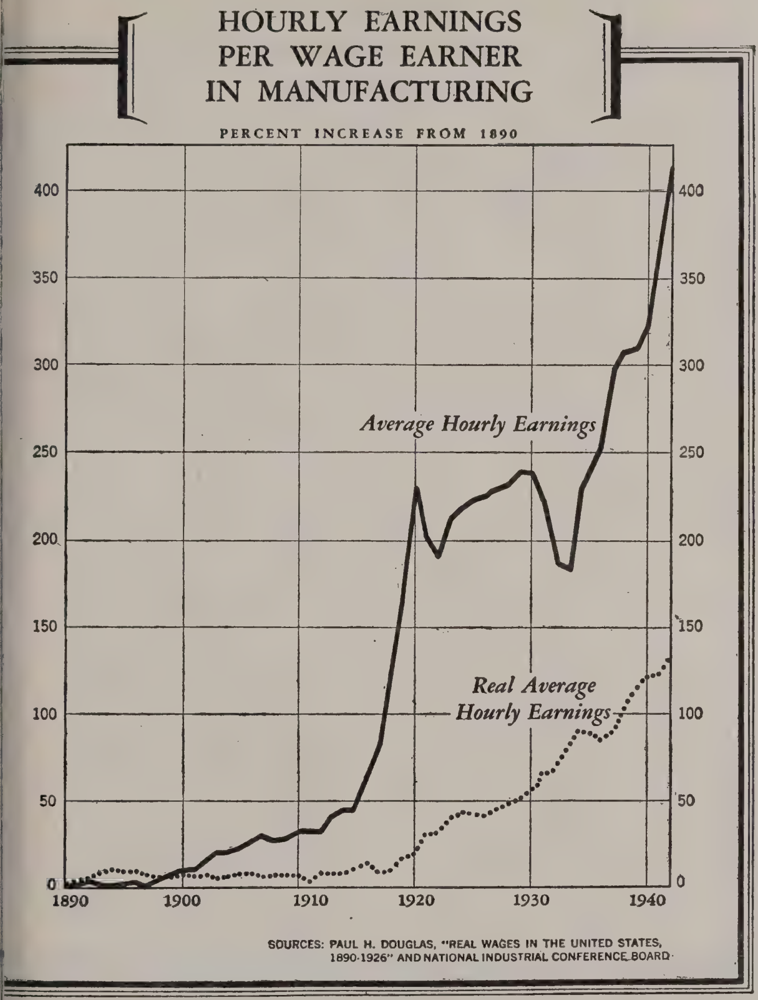


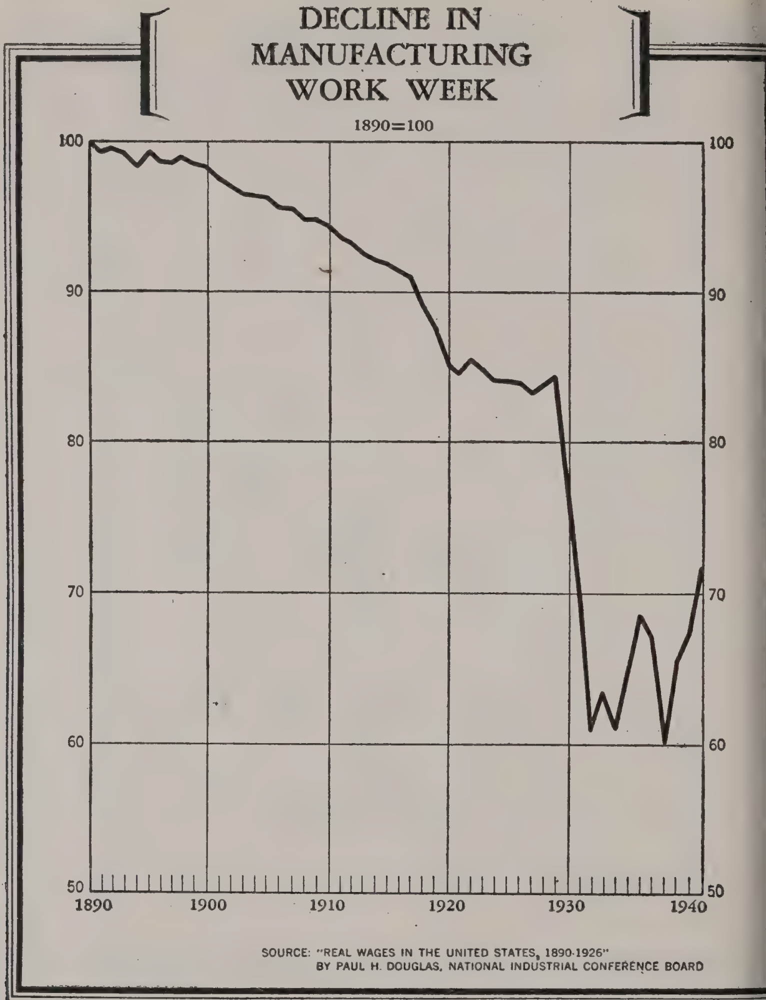
Chart VI

'erage hourly earnings of workers in manufacture—the ırchasing power of the dollars they have received—have bstantially more than doubled. This means, in terms of ıe commodities and services that make up the ordinary ɛrson's cost of living, that an individual in 1940 could get ıbstantially more than twice as much for an hour's labor could a worker in 1890.

Increase in Leisure

Annual earnings in terms of purchasing power have ɔt been increased by such a large proportion as hourly

Chart VII



Annual earnings have increased about 40 per cent in spite of reduction in hours worked.

earnings. Annual earnings show an increase of only abou 40 per cent. This is to be accounted for largely by th reduction in the hours worked per week. This decline i the average work week has continued over many decade Over-all statistics, however, are available only since 189 Using 1890 as equal to 100, Chart VII shows that the de cline has continued almost without interruption. The de cline was rather gradual until the depression of 1929 ar then became quite sharp until by the time of the outbrea of the war the average work week was only about two thir of what it had been a half-century earlier.

In terms of hours this record of the declining wor

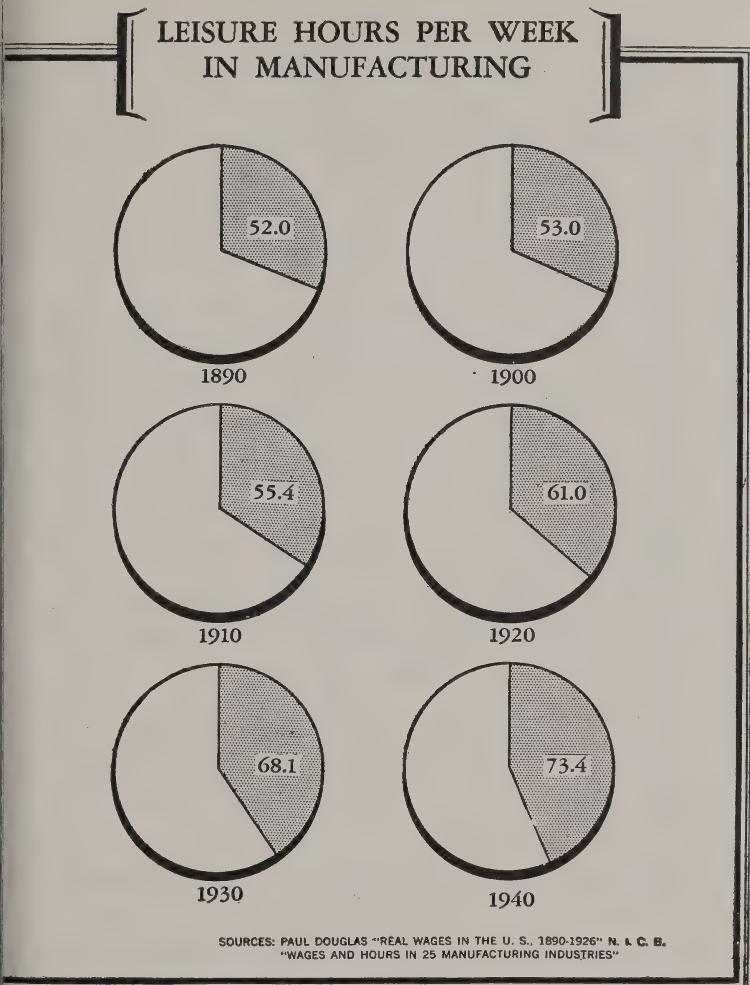
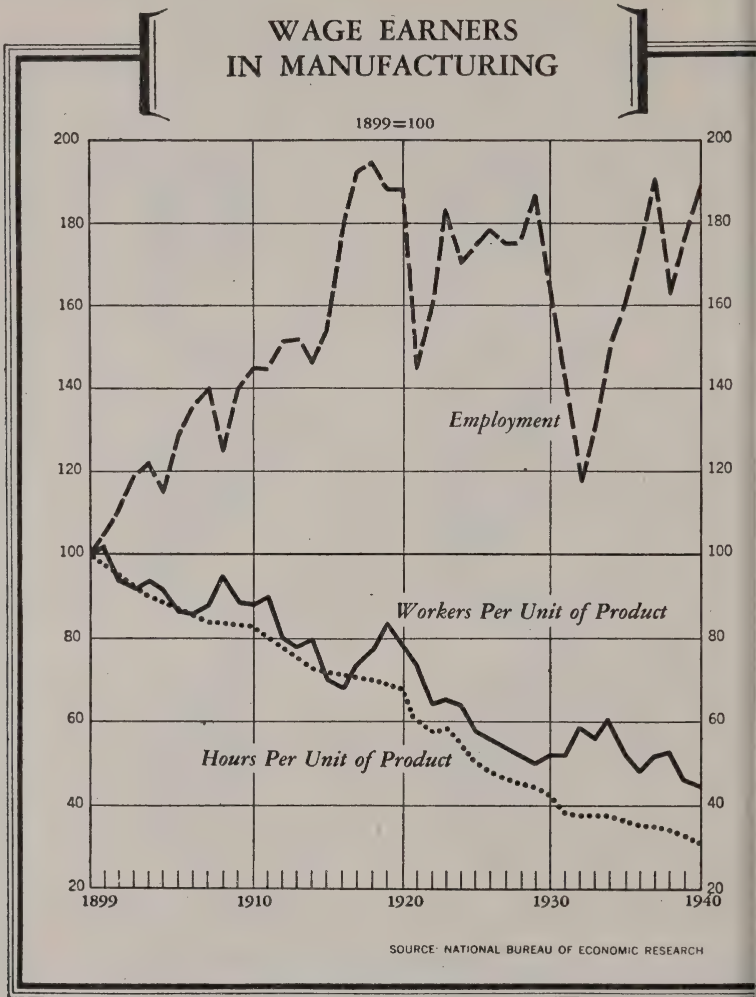


Chart VIII

The reduction in the work week since 1890 has given workers 50 per cent more leisure.

ek is best shown if we think of it as the amount of sure hours it provides for our workers. If we take the mber of hours worked each week, add 8 hours a day for ep, and then subtract the total from 168—the number hours in a week—we get what may be called the number leisure hours per week for employees in manufacturing ablishments. The record on this is shown in Chart VIII. 1890 the average manufacturing workman had only hours of leisure a week. By 1910 this had increased to a tle over 55 hours. Since then the increase has been ex- emely rapid. It was 61 hours in 1920, 68 in 1930, and er 73 in 1940. In other words, the average workman

Chart IX



in American manufacturing today has almost 50 per ce more leisure time at his disposal than a factory worl had in 1890.

Yet, with fewer hours of work per week we have increased production per worker and workers' real wages,

How has it been possible to increase our producti per factory worker, pay higher wages, and at the sa time reduce the number of hours of labor? The real ansv to this already has been given. It is largely the increa capital investment per worker. But there is another w to show this development. This is the increased efficier per worker in terms of product, or the number of work per unit of product. This, together with the trend of e ployment since 1899, is shown on Chart IX. From t

art it will be noticed that it now takes only about 50 r cent as many workers per unit of product as it did at e beginning of the century, and that they turn out a it of product in about one third of the time that was cessary in 1900.

because of increased capital investment.

ODUCTIVITY TRANSFORMS LUXURIES INTO NECESSITIES

The reflection of this great productivity of the nerican Individual Enterprise System is found not ly in our having more of the basic essentials of liv- ; than any other people in the world, but as well in e quantity of "luxuries" which are found in this untry. Many of these items that formerly were lux- es in fact have become so common that they are w regarded as necessities. Outstanding in this particu- is the telephone. One half of all the telephones in e world are in the United States. We had, in 1946, arly 28 million telephones, about 1 for each 5 in- iduals. In the world as a whole there is only 1 ephone for each 50 people. Even in an advanced untry like Great Britain, the ratio is only a little over elephone for each 17 of the population; while in Japan, ingary, Cuba, Spain, Brazil, and Russia there is less than elephone for each 100 of the population. A further point connection with telephones in this country is that about o thirds of the total are in homes. In other words, our e of telephones is not limited primarily to business es- blishments, as tends to be the case in foreign countries. ith us the telephone is a part of our convenience of every- y living.

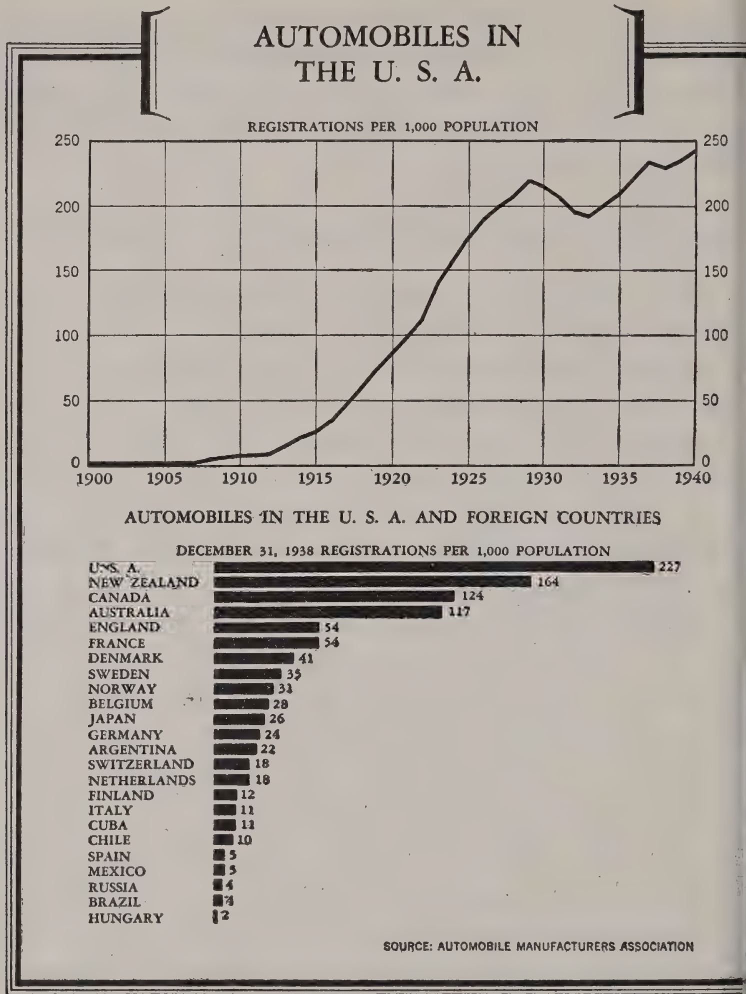
By this great productivity, we have not only provided ourselves more of the basic essentials than any other people has done, but also transformed luxuries into popular necessities.

The telephone is an outstanding example. We have one for every five persons, more than one half the number in the world.

In no other country in the world, as everyone knows, e automobiles in such general use as in the United States. l this development has come since the turn of the cen- ry, as shown in Chart X. Whereas at the time of World ar I we had only 1 automobile for each 40 people, the tio in 1941 was almost 1 automobile for each 4 people. ne countries nearest to the United States in ratio of cars population are New Zealand and Canada. They had, st before World War II, 164 and 124 cars, respectively, r each 1,000 persons, as contrasted with our 227 in the

And we had, before the war, more than three fourths of the world's automobiles —an average of about one to four persons.

Chart X



same proportion. In European countries the ratio was mu lower. In Germany there were only 24 cars, in France a England 54, in Belgium 28, and in Russia only 4.

In proportion to population the sale of vacuum cleaners here has more than doubled since 1918; in 1940 over 8 per 1,000 people.

Vacuum cleaners are another "luxury" that has come more and more of a necessity. There is no record the number of vacuum cleaners in existence, but si 1918 we have the statistics on the number of sales. In 19 there were less than 4 sales for each 1,000 of the popu tion. By 1930 this had increased to more than 8 sales each 1,000 of the population. As was to be expected, s dropped during the depression, but, as shown in Ch XI, the trend started upward again in 1932 and in 19

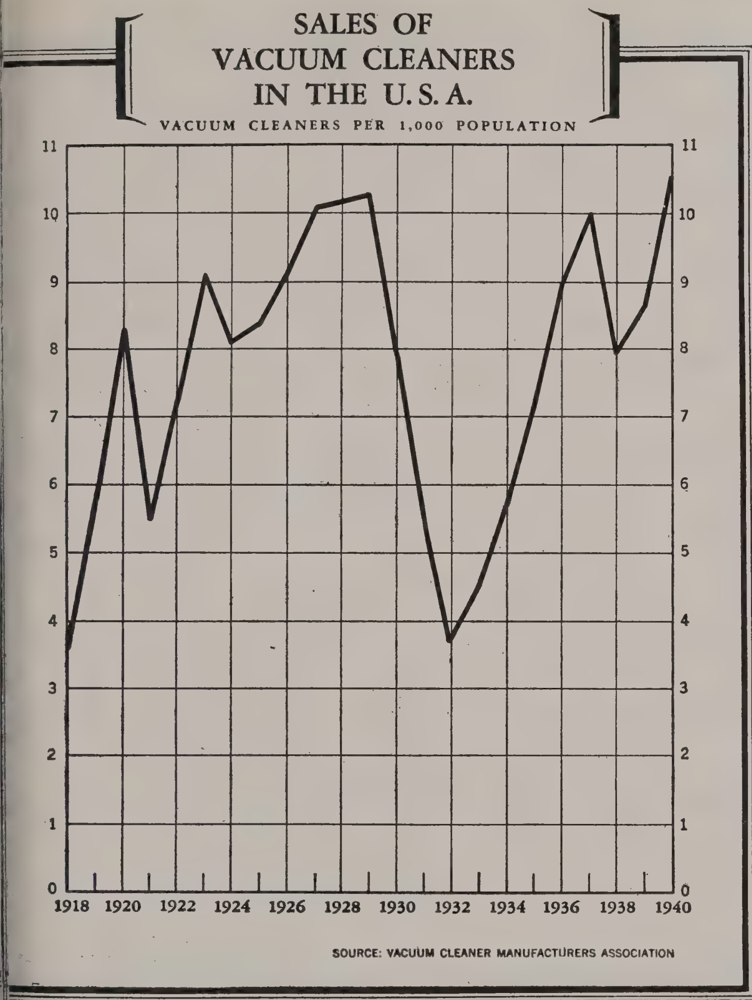


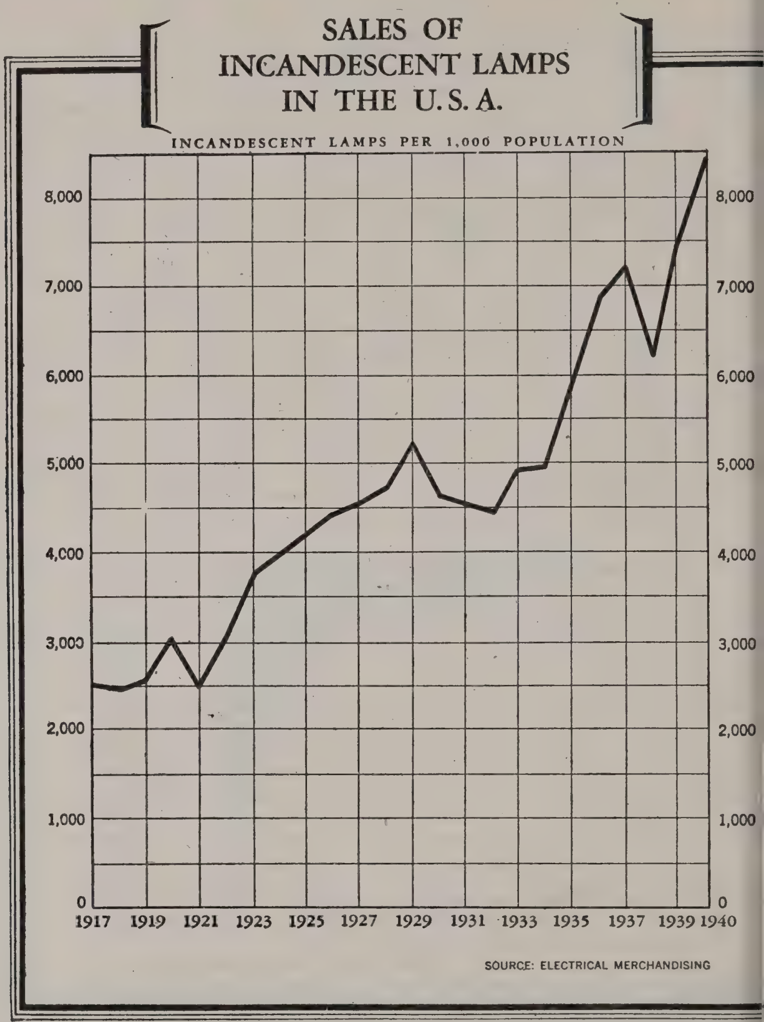
Chart XI

fore war restrictions were imposed sales were above the edepression level.

As an indication of the increased use of electricity, e best figures available are those for sales of incandescent mps. This is shown in Chart XII. In 1917, 2,500 in-ndescent lamps were sold for each 1,000 of the popula-on. By 1929 the figure had risen to 5,200 and, after a inor decline during the depression, the total increased 1940 to 8,200 for each 1,000 of the population. A great provement also has been made in the quality of the mps. Today they not only burn longer than in earlier ars, but give a stronger light in relation to the power

Between 1917 and 1940 the sale of incandescent lamps increased from 2,500 to 8,200 per 1,000 of population, with improved quality and reduced prices.

Chart XII



they use, and the price is only a fraction of what it w
25 years ago.

More than 30 million of our homes have radios.

Radios have shown an equally phenomenal develo
ment. As shown on Chart XIII, this industry got star
only after World War I but we now have more than
million American homes with radios.

Sales of electrical refrigerators mounted from 100,000 in 1925 to

Last of the "luxuries" to be mentioned is electri
refrigerators. Here again only sales figures are availab
This industry also started after World War I but not un
the middle twenties, as shown on Chart XIV, did it ha
a product which found wide distribution to the Ameri
public. In 1925 annual sales were only about 100,0

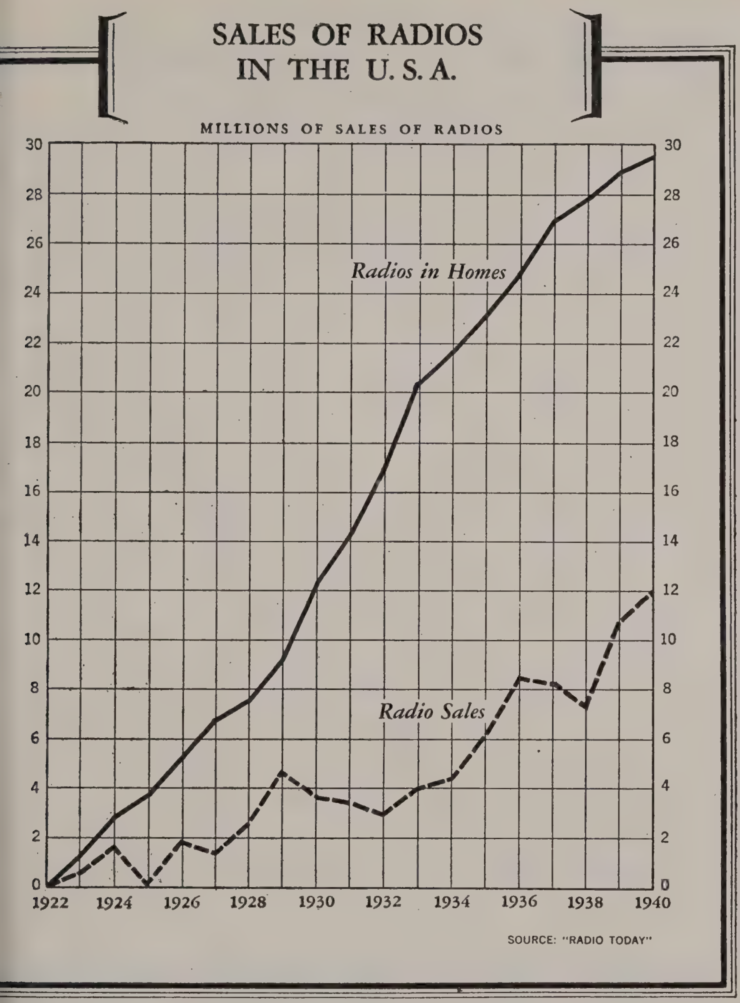


Chart XIII

ereafter they began to climb rapidly and in 1940 more an 2,500,000 refrigerators were sold.

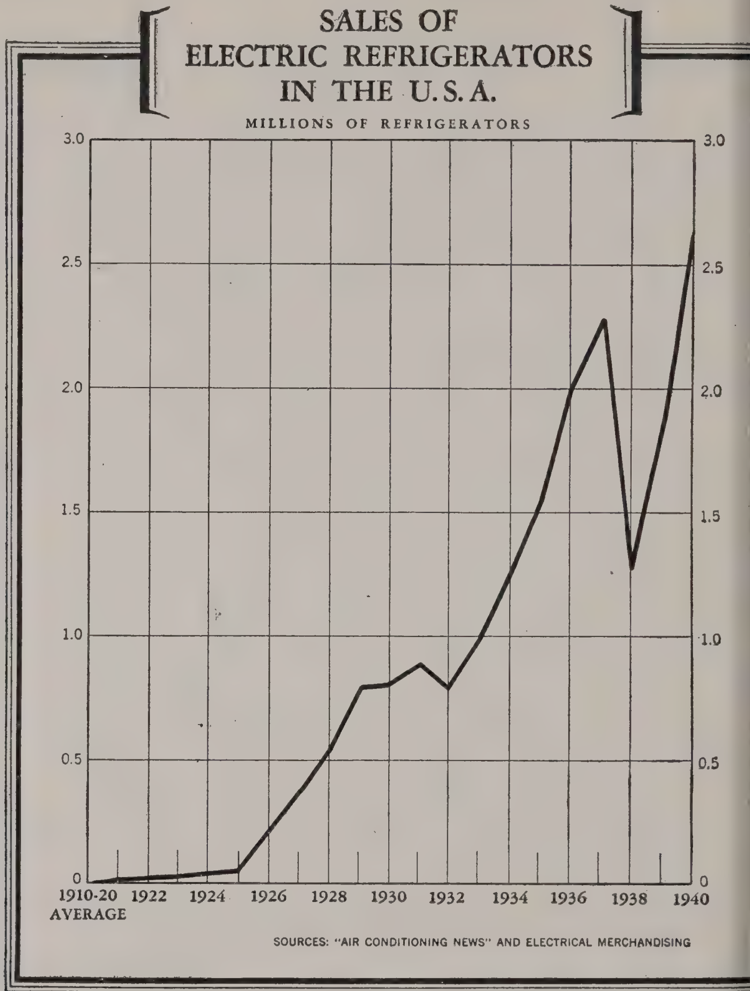
2,500,000 in 1940.

Reduction of Prices

Not only the increased use, but also the related reduction in prices, of such goods has been remarkable.

Still another part of this remarkable record of proction, which has made an ever increasing quantity of ods available to an ever larger number of consumers, is e decline in prices which has taken place in the "luxury" ms of previous years. There is no satisfactory over-all dex for measuring such declines, but they have affected

Chart XIV



The average price of automobiles was reduced from $31 to $9 per horsepower between 1925 and 1940, while the quality was greatly improved.

the lives of all of us. A few examples will show what h
happened.

In the case of automobiles, the average price of t
cheapest four- or five-passenger cars declined from $1,0
in 1925 to $778 in 1940. On the basis of horsepower, whi
is perhaps a better way of indicating the change, the pri
dropped from $31.50 per horsepower in 1925 to $9.10
1940. In other words, not only has the actual over-
price of cars fallen, but the quality has been greatly ir
proved as well. In fact the improvement has been so gre
that there is really no satisfactory basis for comparing t
cars of today with those of 25 years ago. Many of the ir

ovements which today are standard equipment did not
en exist a generation ago.

Automobile tires also have been greatly reduced in ce and at the same time improved in quality. The ret is that the cost of tires on a mileage basis is much ver today than it was 20 years ago. According to the S. Bureau of Labor Statistics, the "composite price" of es of the balloon type was $22.02 in 1926; only $12.60 1939. As to durability of the tires, a recent study has wn that "the smaller 1926 tire cost the consumer .95 with an average mileage of 14,200, while the vier 1938 tire cost $19.35 with an average mileage of 500." This means that on a mileage basis tires cost than half as much in 1938 as they did in 1926. Even owing for change in the general price level, therefore, s quite evident that consumers are getting much more tire-dollar than they did a few years ago.

The average price of tires has been reduced greatly while the durability has been increased. The average mileage has been nearly doubled since 1926.

From quite a different field, yet in many respects oical, is the record of one of the large chemical comnies. The sales prices of this company, on an index basis, reased 35 per cent from 1928 through 1940. This rection was made, it is interesting to note, in spite of a rp increase of taxes and wages. In 1928, taxes paid by company were equivalent to 2.88 cents per dollar of es, while in 1940 taxes represented 14.87 cents per dol- of sales. This was an increase of 418 per cent. The rage hourly compensation paid employees also inased sharply during the period—from 55.2 cents in 28 to 91.6 cents in 1940—an increase of 66 per cent.

A large chemical company, 1928-1940, reduced prices 35 per cent, while raising hourly wages 66 per cent and paying over five times as much taxes per dollar of sales.

Social Gains

Let us now turn to a broader aspect of our developnt under the enterprise system—the social gains. Our ogress in this direction is not all to be credited to the erprise system. Many other factors have also played ubstantial part. It should be noted, however, that there lways a fairly close relationship between economic wellng and social progress. The economic well-being which come from our system of individual enterprise, theree, at least has made possible the social improvements our

Our economic development under our enterprise system has also made possible great social progress.

Economic progress has contributed substantially to increase of life expectancy.

people as a whole have enjoyed. In other words, t social improvements are what may be called a by-prod or indirect result of the success and accomplishment the enterprise system.

Reduction in Mortality

The first of these achievements under the enterp system which may be noted is the increase in the expectancy of the American people. This is due to a g decrease in the mortality rates, especially of babies young children, and to the great decrease in deaths f tuberculosis and other diseases which formerly exacte heavy toll. That is, the improvement in medical scie and the growth of public health work are primarily sponsible for increased longevity of the American peo but improvement in economic conditions has played important role in making this improvement possible.

In the industrial population, expectation of life at birth has nearly doubled in 70 years.

The expectation of life at birth for the indus population of the United States has almost doubled in past 70 years. In other words, in the 1880s, a child at b was expected to live 34 years, whereas in 1942 the expectancy of infants at birth was 64 years. These fig are based on the experience of industrial policyholder the Metropolitan Life Insurance Company and furni good cross section of the working population of the Un States.

Public Schools

In the early days in this country, there were limited opportunities for free schooling. Massachusett pioneer in education, passed a law as early as 1647, cal on all towns of 50 or more families to establish elemen schools and all larger towns to establish "Latin" schoo well. Attendance at these schools, however, was not c pulsory. Throughout colonial days and in the early par the nineteenth century, the apprentice system of trai was in effect. Most of the factory workers served an prentice term of 4 or 5 years in the home of a ma who, besides training the apprentices in their requ craft, was required to teach them to read and write. V

breakup of the apprentice system, there was a demand some school facilities which would at least teach the R's."

At first most of the free schools were on a charity sis; that is, they were supported by private philanthropy. ter, through the work of Horace Mann and others, a mber of states provided for public schools, supported by al and state revenues. By 1850 most of the states had ne form of public schooling. But even as late as the tbreak of the Civil War the average term of school at- ndance was only about 3 years.

There has been amazing advance in public facilities for education during the period of great industrial development.

The average period of school attendance has in- eased greatly during the past 25 or 30 years. Most states not permit children, with rare exceptions, to leave hool before they are sixteen years of age. Restrictions ced on the hours of work of children in factories, as ll as legislation restricting child labor in factories, have o had the effect of increasing the period of school at- ndance.

High schools did not develop to any considerable mber before 1880. Prior to that time, secondary educa- n was provided largely by private academies. In 1890 e attendance at public high schools had passed 200,000, out twice the attendance at private academies. With the ception of a few states, like Massachusetts, there were no blic high schools until the latter half of the nineteenth ntury.

The attendance in secondary schools, chiefly public gh schools, rose from 695,903 in 1900 to 6,763,938 in 38. In other words, about ten times as many children ere then attending high schools as at the turn of the ntury.

College attendance has also shown a marked advance ring the present century. In 1900, there were 237,592 idents in colleges, normal, and professional schools. This mber increased to 597,880 in 1920, and 1,350,905 in 38. In other words, the attendance of schools of higher ucation in 1938 was nearly six times as great as it was 1900.

This great increase in educational opportunities in th public and private institutions is one of the outstand-

This increase in educational opportunity could not have been supported except with a corresponding increase in economic productivity.

ing accomplishments which would not have been possibl except for the great productivity of our economic systen The cost of supporting public schools is now over 2½ billion dollars, including elementary, secondary, and highe institutions, while the cost of operating private educa tional institutions is about 480 million dollars. In othe words, our educational system today costs us approx mately 3 billion dollars annually. Only a country rich i resources and capable of producing a high level of nation income could carry this burden and thereby provide edu cational institutions of the size and quality of those of tl United States. Similarly, only a country of high produc tivity could support young people in schools until the la teens or early twenties before they begin to earn a livin

Child Labor

Increased productivity made possible also a reduction in child labor, which has virtually disappeared in industry.

In the early days of the factory system in th country child labor was fairly prevalent. With the d velopment of technological processes and the division labor, the productivity of workers was increased so muc that a smaller labor force was required to turn out a give unit of product. The increased productivity of worke due to these advances also made families less dependent the earnings of children. Undoubtedly, therefore, the d velopment of our productive system has been chiefly r sponsible for the reduction in child labor. Such child lab as now exists is confined almost entirely to agriculture.

Chart XV traces the decline of child labor. shows that in 1870 5.7 per cent of the persons betwe ten and fifteen years of age were gainfully employe This ratio increased to 6.4 per cent in 1880 and remain at the same level in 1890. With the turn of the centu however, there was a tremendous drop in the employme of children which continued until in 1940 only 1.4 p cent of all persons between the ages of ten and fourte were gainfully employed. In other words, in manufactu ing, child labor has been practically eliminated. In 190 according to government statistics, 32 out of every 1,0 wage earners in the manufacturing industries were und sixteen years of age. In 1930, only 5 out of 1,000 w

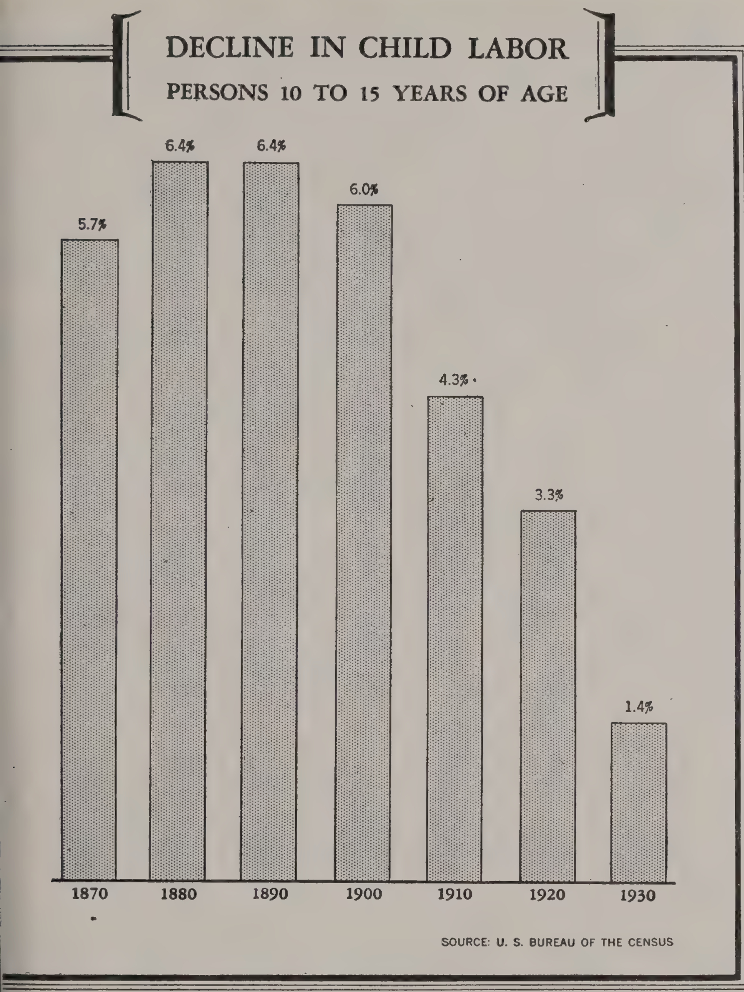


Chart XV

ıder sixteen years of age. And there has been a notable crease in child labor in manufacturing since then. A cent survey of 1,572 leading manufacturing companies, ıploying more than 2 million workers, showed that they ıployed a total of only 28 children under sixteen years age.

ilanthropy under the Enterprise System

The care of the indigent and underprivi-

In the colonial days and in the early days of the public, the provision for indigent and unfortunate ople was, according to present-day standards, quite

leged by voluntary agencies was remarkably developed as economic productivity grew.

niggardly. The poor laws of the colonies, and later of t states, followed along the general lines of the English pc laws. Local communities were held responsible for the i digent and vagrant population; and, by rules of settlemei relief was given only to residents of the locality whi was responsible for their care. These allowances were ke pitifully small to discourage pauperism. The aged and i firm who had no other homes were cared for in poorhous often under deplorable conditions.

Gradually, the standards of charitable and soc welfare work improved, especially since 1900. Churcl and voluntary relief organizations began to suppleme the meager and rather harsh provisions of state and loc charities. In relieving the distress of families, such volu tary agencies developed the case-work method whi attempted to put the family on its feet, to build up sel respect and morale; in other words, the methods we constructive rather than merely palliative. Societies a institutions for the care of neglected, delinquent, and c fective children were developed, supported entirely l voluntary contributions.

A broad program of philanthropy and social welfare was fostered by private enterprise as it raised our national income above a a subsistence level.

Housing reform also became a popular movemei Building restrictions were enacted to ensure safety a decent living conditions in low-rental housing and ter ments, and "model" houses were built as a guide for t construction of better low-cost houses under private init tive. Further, in the large cities social settlement hou offered opportunities for recreation and education; h pitals and public clinics provided free health service f indigent people, supplementing in this way the limit work of state and local public institutions; and pub health nursing was carried on by private institutions su ported in part by voluntary contributions and in part payments received from the beneficiaries themselves a from life-insurance companies for the benefit of polic holders.

These are only some of the high lights of the brc program of philanthropy and social welfare which l been developed in our country. These types of constru tive philanthropy have flourished on a larger scale h than in any other country in the world. Private enterpr

; played an important role in developing this program, :ause it has increased our national income far above the osistence level. In this way we, as a nation, have been e to provide a broad program of social welfare.

Taken as a whole, the generosity of the American ople has been truly astounding. There are no statistics iich tell the full story, but a few facts will illustrate : scale on which the economic resources of the country ve been used to support some of our public welfare and ucational programs. Gifts and bequests which appear deductions under the estate and individual income taxes aled 5,195 million dollars for the years 1922 to 1929— average of 650 million dollars a year. The deductions gifts averaged about 489 million dollars a year and : deductions for bequests 151 million. These figures, of irse, do not include all the gifts and bequests made, t only those for which deductions were claimed by some the income taxpayers and by the larger estates.

Gifts, bequests, and endowments for philanthropic purposes have reached enormous proportions.

Endowment funds, established for the benefit of ge groups, now total more than 2,500 million dollars. this 1,641 million dollars is held by colleges and universities. These endowment funds and foundations are ing much to improve our educational standards and to omote public health and other valuable services.

Few people realize the extent to which large fortunes ve been devoted to public welfare work. For example, : original grant to the Rockefeller Foundation was over 0 million dollars. The original grant to the Carnegie undation was about 250 million dollars. Other indiluals, less well-known, have contributed as much as 100 llion dollars of their private fortunes to hospitals, coles, universities, and other forms of public work.

e Social Security Program

Some of the benefits now being conferred by federal l state laws, under the social security program, were ginally provided by private philanthropy and by a more less planless form of public relief. But because some of : problems involved in social security came to be re-:ded as having a permanent and widespread nature,

State provisions for relief, financed out of growing tax revenues, came to supplement

the work of private agencies.

there gradually developed a demand for a more systema method of meeting these needs. Thus from 1910 to 19 our state and local governments began to make mc specific provisions for indigent aged persons and moth with dependent children. For a number of years, many our states also made special provision in the relief laws f blind persons. There were state provisions also for t needy aged, which grew out of a realization of the i adequacy of institutional care for the aged and infirm. was believed that old people could be happier and car for at no greater cost through monthly allowances, oft inaccurately called "pensions," than in "poorhouses." 1931, New York enacted a law providing for montl allowances for aged people incapable of self-support. number of other states followed suit. These old-age pe sions were financed entirely out of state and local fun

Even earlier, a number of states adopted widov pensions which gave allowances to mothers with depen ent children during the period when the children w still small. Gradually, this was extended to include, besi widows, needy women whose husbands had deserted th and women whose husbands were totally incapacitated.

Eventually, in 1935, a nation-wide program of social security was initiated.

The federal Social Security Law, adopted in 19 provides for federal subsidies to states which have adopt approved laws for giving aid to these needy groups. T offer of federal subsidy resulted in a great increase in t number of states providing for these three types of a until now all states make such provisions and the numl cared for has increased at a very rapid rate.

1. It made federal grants to states providing old-age assistance. The number so aided increased from 123,000 in 1934 to 2,234,000 in 1941.

For example, in January 1934, the number of p sons receiving old-age assistance from the states was 123,0 and the monthly allowances were $2,342,000, or an av age of about $19 a month per person. Federal subsid to old-age assistance funds began in 1936 and resulted i sharp rise in the number of cases cared for and in t total outlays which are now shared by the federal gover ment and the states. In January 1936, 430,000 persons w getting old-age assistance; but in December of that y the number had increased to 1,600,000, and by Decemb 1941 2,234,000 aged persons were receiving assistance. T total expenditures—federal and state—for old-age

ance in 1941 were 541 million dollars which was an
erage of a little over $20 per month for each person.

Grants-in-aid to mothers with dependent children
ve also increased with federal participation. Throughout
34, a little over 100,000 families were receiving this
m of aid and the total cost was about 40.7 million
llars a year. In 1941, however, about 390,000 families
re receiving aid for dependent children and the total
st—federal and state—was at the rate of 153 million dol-
s a year, or approximately $32.50 per month for each
nily.

2. It also subsidized grants to mothers with dependent children—390,000 in 1941.

The program for aiding blind persons has not in-
eased so much as the other types of need, because there
a definite limit to this problem. Nevertheless, it has in-
eased considerably with federal participation. For ex-
ple, in 1934, about 30,000 blind persons were receiving
te aid at an annual cost of about 7 million dollars. In
cember 1941, 77,000 blind persons were receiving as-
ance at an annual cost of approximately 23 million
llars. This was at the rate of about $25 per month for
h recipient.

3. The federal subsidy for state aid to the blind was granted for 77,000 persons in 1941, as compared with 30,000 aided in 1934.

In the federal Social Security Act, provision was
de for contributory retirement pensions for practically
workers, except those in agriculture, government, and
ew small industries. All workers in the covered indus-
es, which represent the bulk of the working population,
required now to contribute 1 per cent of their earnings
der $3,000 a year, and their employers are required to
ke an equal contribution. These contributions are in the
m of pay-roll taxes and are collected by the federal
vernment. At the present time, between 600 and 700
lion dollars are collected each year in these pay-roll
es. Those covered in the system are entitled to retire-
nt pensions at the age of sixty-five, depending in part
the "contributions they have made to the fund," al-
ugh preference is given to the lower paid groups and
those entering the system at fairly advanced ages.

The federal Social Security Act made provision also for contributory retirement pensions for a large proportion of workers. The number now contributing to the fund, to which their employers contribute an equal amount, is now over 40 million.

So far, payments under the federal old-age security
visions have been relatively small. Eventually, however,
h claims will reach staggering proportions. At the present
ne, over 40 million individuals are contributing to the

old-age fund. Within the next 25 years, annual payme will amount to about 2 billion dollars; and, within years, to about 3½ billion dollars annually. Regardl of the method of financing followed, therefore, old-pensions will fall with great severity on the coming ge eration of taxpayers. Whether this burden can be carr will depend on whether we can continue to increase productivity, for in the last analysis it is only throu production that a nation attains a surplus with which care for its retired workers.

Unemployment Compensation

A plan of unemployment insurance was proposed by Dr. John R. Commons more than 30 years ago.

More than 30 years ago, Dr. John R. Commons the University of Wisconsin proposed a scheme of une ployment insurance. The proposal was based on two sumptions:

(1) that, in a free enterprise economy, industry m always have a reserve labor supply on which it draw in periods of rapid expansion; and

(2) that, even in prosperous times, certain types of employment are unavoidable, such as seasonal employment and temporary unemployment wh men are going from job to job.

The cost of meeting weekly payments for a limited period would be borne equally by employers' and employees' contributions to a fund.

Dr. Commons' contention was that the work alone should not be expected to bear the full cost of su unavoidable temporary unemployment, since industry the nation as a whole benefited from having a rese labor force to allow for elasticity in the entire indust system. He therefore proposed that the problem sho be met by small weekly payments, over a limited peri to workers who, through no fault of their own, w temporarily unemployed. He proposed that the cost meeting such payments be borne equally by employers employees in pay-roll taxes. Funds collected through th pay-roll taxes would be held in a reserve fund from wh payments could be made as emergencies arose.

Eight states had adopted such plans by 1935.

The unemployment insurance program, theref was never intended to be a solution for mass unemploym in depression periods, but merely as a device of tid

rkers over such periods of temporary unemployment are inevitable even in fairly prosperous times.

Wisconsin was the first state to enact a law for com-lsory unemployment compensation. That was in 1932, t the law did not become effective until 1934. By 1935, ht states and the District of Columbia had adopted such islation. Then came the federal Social Security Act, ich gave tremendous impetus to the adoption of state employment compensation by imposing a federal pay-l tax on all employers and allowing a rebate of 90 per it of such tax to those paying a state unemployment y-roll tax. All states now have unemployment compen-ion.

Then the Social Security Act extended it to states by imposing a pay-roll tax on employers, rebated 90 per cent to those paying a state tax.

The purpose behind unemployment compensation fairly simple, but the administration of the program is remely difficult. The plan provides that workers cov-d in the fund may receive compensation on a weekly is, usually for a period of 20 weeks of unemployment, er a waiting period of from 10 days to 2 weeks, depend- on provisions in the various states. The amount nted is usually equivalent to about one half the average nings of the unemployed worker up to a maximum of out $15 a week. Operating in this way, unemployment npensation payments have been a great help in assisting rkers to tide themselves over temporary periods of employment. Nevertheless, it is not a remedy for a iod of drastic unemployment lasting for many months.

This plan helps tide workers over a period of temporary unemployment, but would not serve mass unemployment over an extended period.

The provision of such protection for our workers inst old age and periodical unemployment is highly irable. If the protection is to be real, however, it must based upon a sound system of financing. This problem already presented itself in some of the state and local ision provisions for civil employees. Some of these pub- pension plans are not on a sound actuarial basis, and te and local governments are having difficulty in meet- pension requirements for teachers, firemen, policemen, l other public employees. Further, the provisions for d persons, both under the state assistance laws for igent persons and also under the contributory federal n, also involve heavy financial burdens to be met by ure generations. We have hardly yet begun to feel the

These protective plans should be based on sounder financing, to withstand heavier impact in the future.

The only real security for workers is con-

tinued industrial expansion through increased investment and increased production.

impact of these plans, and we must never forget that, stated earlier, the only real security for workers is co tinued expansion of our industries through increased pr duction and increased investment. In no other way can provide employment for our increasing number workers and at the same time make adequate provisio for temporary unemployment, old age, and other conti gencies. Merely to pass a law does not solve the proble

National Income

National income is one of the most inclusive indexes of human welfare.

There are differences in methods of computation. "National income received" is the sum of payments to individuals. Gross National Product or "national income produced" is a somewhat larger amount.

One of the most inclusive indexes of human welfa is the national income. There are various measuremen which throw light on the changes which have occurr in the size of the national income. Any differences in t trends indicated by the different measurements are larg attributable to differences in the lists of items enteri into the totals used as indexes. Some statisticians mer add up the spendable dollars that each individual in t country receives. Others include in addition such co porate earnings as are not paid out as dividends. Still oth include the rental value of owned homes, on the reasoni that homes render services equivalent to their ren values. Some go yet further and add that part of fa production which is consumed on the farm. And so go still further and add the cost of raw materials a depreciation. This gives an aggregate which usually termed Gross National Product.

An element of the national income which, in rec years, has grown greatly in importance and has cau endless controversies, is that part consisting of governm services or disbursements. The difficulty which arises connection with this item is how to evaluate correctly services of government. They are not sold in the op market. One has to face the question, therefore, whet such services are worth what they cost. In many case may be assumed that they are. But is this true when go ernment services consist of leaf raking or leveling bea sands? Without answering such puzzling questions, it impossible to measure, with any approach to precisi the net contribution of government to the natio

ome; and, when government employs a very large frac- of the workers of the nation, failure to estimate ectly the size of government's share in the national ome may introduce material errors into the calculated d of the total national income.

National income data should be adjusted to current price levels.

National income, on whatever basis compiled, may course be expressed in terms of current dollars or in ns of fixed-value dollars. Income in current dollars esents merely the sum of the dollars received by all viduals. Income expressed in terms of dollars of con- t purchasing power represents these dollar totals ected for the average change, from prices in some od taken as a base, in the prices of the things for which dollars are expended. This latter measurement is etimes called a measurement of real income because represents a measurement of the volume of real gs that people can get back for the total national ome.

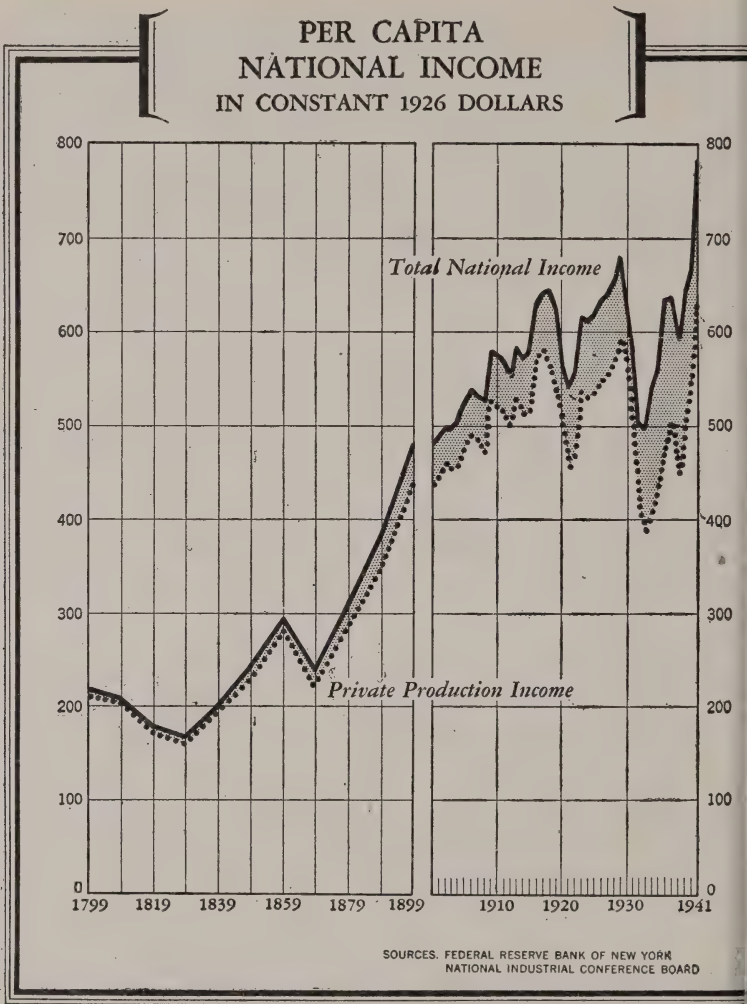
The common measures of national income do not take account of the enduring wealth of the national community.

In using national income estimates as a measure- t of achievement, it must be remembered also that e figures commonly understate the achievement. When w house is built, it will continue to render service over nsiderable span of years. The house will be represented e national income for the year in which it is built, for es paid to the carpenter, masons, and others who ted it will be included. But various estimations of onal income omit its contribution to the well-being he people in the succeeding years. In short, national ome, most commonly measured, does not give reflec- to the well-being that is provided by the enduring lth of the community. The greater that wealth is, the e inaccurate is the customary income measurement gauge of well-being and achievement.

National income produced is used to represent the value of the net

With these cautions in mind, we can now turn to figures on national income. For the reasons indicated he foregoing comments, it is clearly desirable to use income figures which have been adjusted for price ges and placed on a per capita basis. The national me data which are presented here are from the ional Industrial Conference Board, which uses much same methods at the U.S. Department of Commerce

Chart XVI



output of commodities and services produced by the private and public enterprises of the economy. This measure is used here.

in its estimates. The definition given by that Departm is as follows:

National Income is the measure of the value of the net ou of commodities and services produced by the private and public er prises of the economy. It includes the economic activities carried o all producing entities—corporations, partnerships, individuals' er prises, and governmental agencies. In practice, the development lows industrial lines so that measures are at once provided for the ments of the national income that originate in each of the several b industry groups such as agriculture, mining, trade, etc. The measu net in the sense that the value of materials and supplies and of p and equipment consumed in the process of production is deducted f the gross value of goods and services produced in order to obtain value of net production.

The per capita national income as thus depicted is ɔwn year by year since 1799 in Chart XVI.

The marked slump in the income from 1929 to 1933 presents a greater drop than that occurring in any earlier riod. Moreover, per capita income fell to a lower level an that at which it stood more than a quarter of a ntury earlier. It is only recently, since the economy has en galvanized by the war effort, that the national income ures have risen to the levels reached more than 10 years o. One would be blind to the fact if he did not observe at a contribution to the continuance of this extraordi- ry cessation of growth in national income was a period governmentally sponsored "reforms" on a nearly revo- ionary scale. These reforms in many instances under- ned the basic incentives of our enterprise system, for taxation the most productive units were penalized, and government largess the less productive units were mpered. This led to a lack of confidence in the future tlook for business which has hindered production, pital investment, and employment.

The nation did not fully recover from the greatest drop in the national income until galvanized by the war effort.

Reforms undertaken in the 1930s raised doubts about business prospects, and lack of business confidence slowed recovery.

Distribution of Income

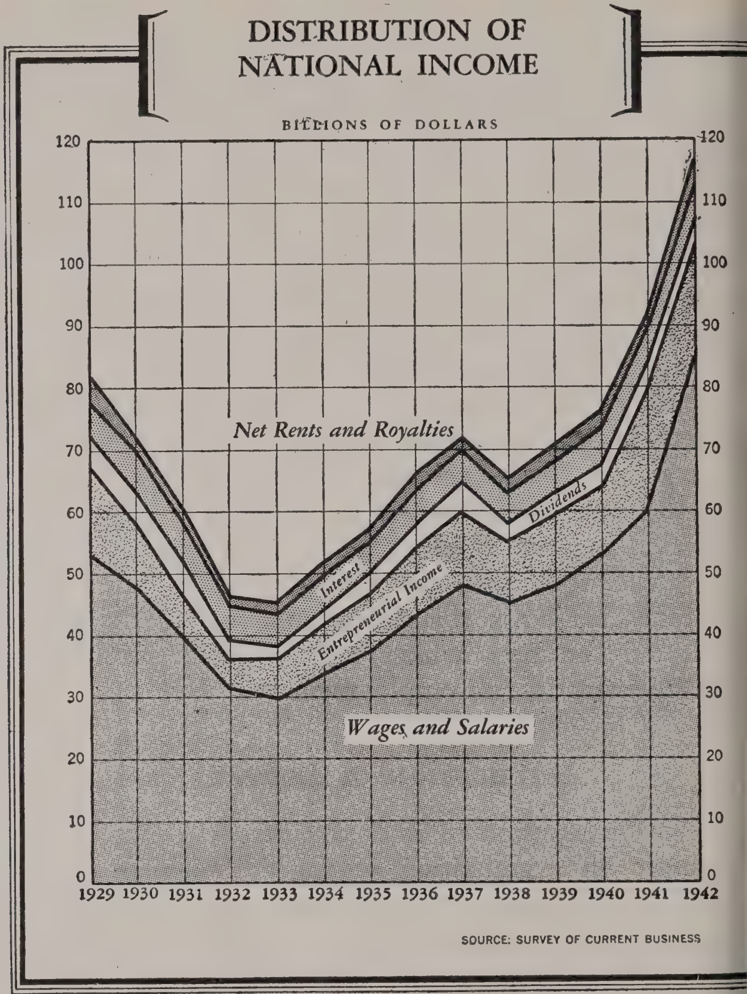
The distribution of national income is not strictly evant to an examination of the achievement of the nerican people under the enterprise system as a whole. wever, since it is currently the subject of much dis- ssion, certain aspects of that distribution may be amined.

Under the enterprise system, national income by and ge is distributed in accordance with the values which various productive units contribute to the community tput. (Chart XVII shows the broad division since 29.) Except in the case of monopolies, the community s the individuals (or groups) for the services rendered it at its own valuation, selecting the particular indi- ual and service in each case in view of the services npetitively proffered by all other individuals. Income, is, measures the value of service rendered to the nmunity rather than a value subtracted from the nmunity.

The distribution of national income is determined mainly by values the community puts on services rendered in a competitive economy.

Since this is true, it is both surprising and unfortu-

Chart XVII



Those who produce more, or contribute more to national output of goods and services, should have larger shares than those who contribute less.

nate that the country should, from time to time, swept by proposals and programs to "redistribute income." Proponents of such programs say that since so people get more income than others the former sho share with the latter. Their thinking would be straighter if, instead of saying that some *get* more incor they said that some *produce* more or *contribute* more the national income.

In view of this it is not surprising that income is evenly distributed. In fact, it should not be evenly tributed. Should the apprentice be paid the equivalent the experienced craftsman? If so, why should the appr

e ever seek to become skilled? Should the thrifty work-n who places his savings through investment at the posal of the community receive greater income than spendthrift? If not, why should anyone, by saving, ovide the capital and the tools that are necessary production?

This principle of distribution should be jealously safe-guarded, for the mainspring of our national achievement has been this incentive to maximum effort, and all the people suffer when impairment of this incentive prevents our productive pos-sibilities from being realized.

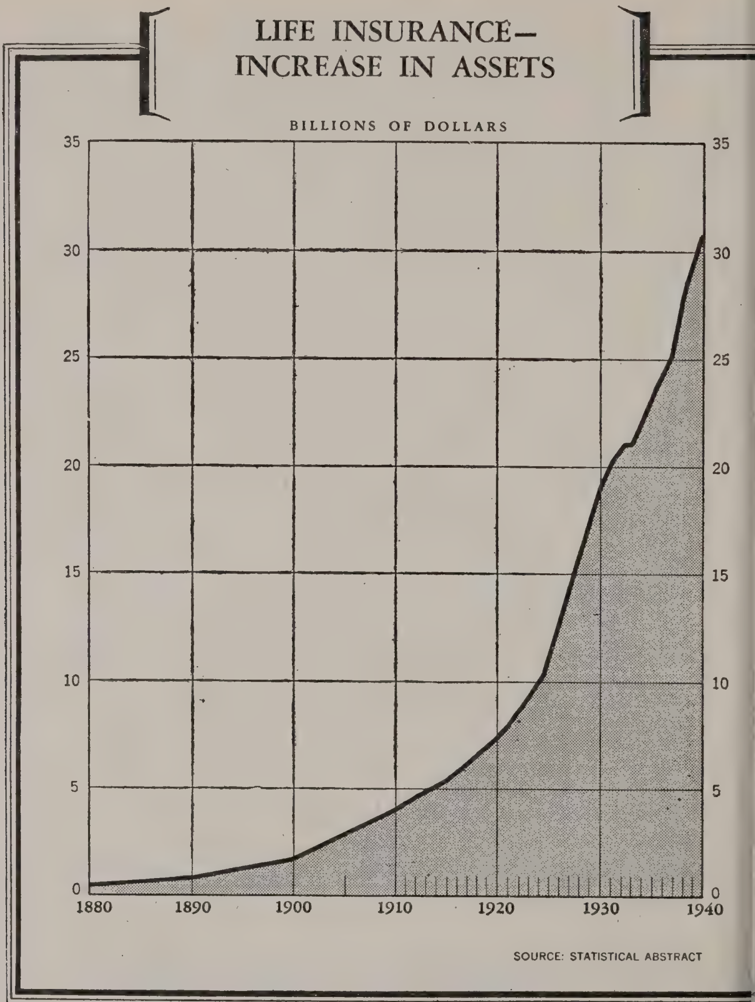
The thing that is important about the distribution income, in other words, the principle that should be lously guarded, is that it is not nearly so important ether this or that person or group "gets" more than other, as it is whether each person and each group eives the income that measures the value, as established competitive markets, of the services he or it renders the mmunity. That principle has been the mainspring of r national achievement in the past; and it would be astrous to the welfare of all of us if that mainspring re broken. And the disaster would not be that those of ater income were deprived thereof; but that all the ople would thereby be condemned to live in a society nied resort to the great productive possibilities of indi-lual enterprise.

vings and Life Insurance

Savings deposits and life insurance are indexes of prosperity of rank and file. The spectacular rise of such savings since 1900 is shown in Charts XVIII-XIX

As a means of showing that, in spite of the various siness depressions in our history, we have been on the ole an almost unbelievably prosperous people, we may ll look at the volume of savings and life insurance. In ackward countries" the rank and file of the public does t save. They do not save for the simple reason that it es everything they can make just to keep body and soul gether. How far we have progressed from that situation hown on Charts XVIII and XIX. We now have accumu-ed over 25 billion dollars in savings deposits, and prac-ally all of it, one should remember, belongs to people relatively low incomes, for as a rule those who receive ge incomes put their savings directly in stocks, bonds, l mortgages, or else buy real estate. As for insurance, American public now holds policies backed by assets ich have reached the almost incredible amount of over billion dollars.

Chart XVIII



Conclusion

The rise of the American people under their enterprise system to an unparalleled level of well-being is one of the miracles of human history.

The rise in well-being, in wealth, in security, in scale of living, of the American people during the decades we have lived under the Constitution, as sta earlier, can properly be regarded as one of the miracle the history of mankind. We of today's generation hardly appreciate this truth in full because it is extrem difficult to envision the hardships of earlier generations hence appreciate the contrast provided. Take, for exam the now commonplace automobile: Seldom when we in it do we wonder at the marvel of science, ingenu

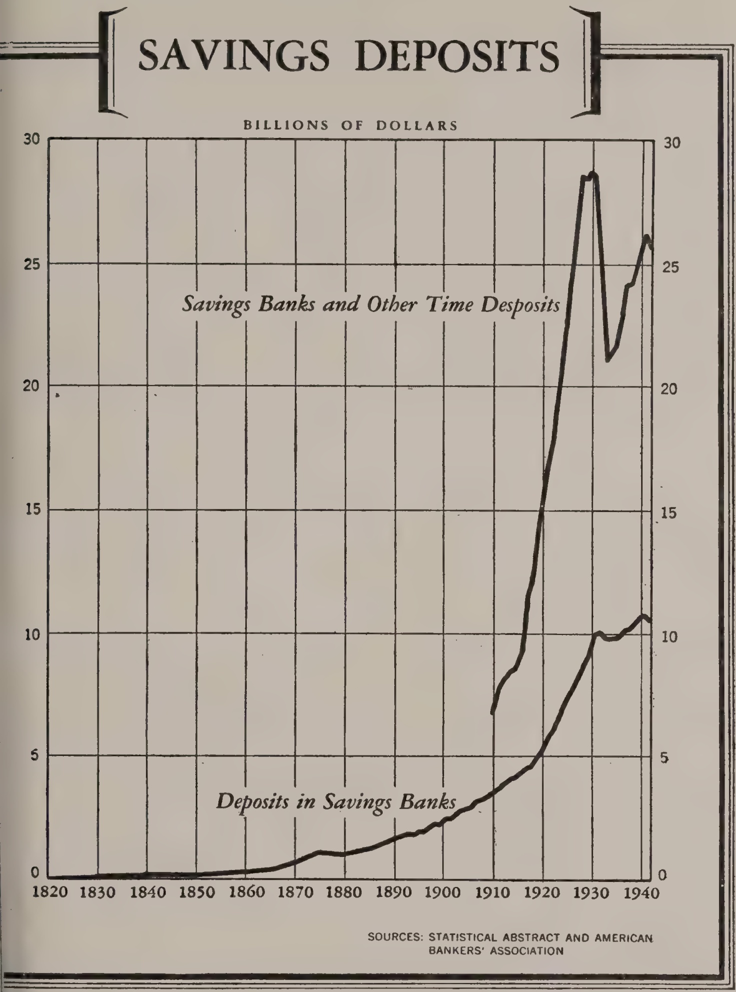


Chart XIX

iative, and industry which it represents. We are more ly to complain if some gadget on it should occasionally faulty in operation. Yet, in a few hours, we cover in distances that used to represent days of arduous travel.

Although only a fifth of us are engaged in agricul- al production as compared with 90 per cent when the ublic was founded, we have learned how to feed our ple bountifully. This was not always true. There have n times in our history when the question of getting ugh food was paramount.

Viewing our history as a whole, it is undoubtedly e that the achievement of the people in America in

acquiring command over their resources and environme
and in utilizing them to their own well-being, transcer
the achievement of all mankind in other times or places.

We should not abandon that system without due consideration of both past and prospective achievements.

That we today accept as commonplace the resu
of this achievement is wholly natural because, althou
the achievement is exceptional, its presence is commo
place. To accept the achievement as matter of fact
moreover not to be condemned so long as the system
living together under which that achievement was ma
is clearly understood. What is to be condemned is a
serious intent to abandon that system without due co
sideration of its past and prospective achievements.

XVIII

GOVERNMENT SPENDING TO STIMULATE BUSINESS ACTIVITY

AS an economic system develops industrially, wide swings in the volume of business activity are of increasing concern to the government. The reason [wh]y this is true is obvious. It is important, however, by [wa]y of introduction to the subject of government spend[in]g as a regulator, to sketch the background against which [va]rious modern theories of government intervention have [de]veloped.

Wide swings in business activity concern the government least in a mainly agricultural economy, because the people individually have a high degree of self-sufficiency.

Impact of Fluctuations on Economic Opinion

In an economy which is predominantly agricultural, [th]e people, both as individuals and as families, are more [or] less self-sufficient. This is because they are on a "goods" [ba]sis. They raise practically all their own food, build their [ow]n shelters, and in case of necessity make their own [clo]thes. A "bad" year, or series of bad years, means that [th]ey have less food and clothing; but, unless the failure [att]ains famine proportions, they still have something to [ea]t, something to wear, and a place to live. In a word, [th]eir income is reduced, perhaps drastically, but it is not [co]mpletely eliminated.

In a highly industrialized economy, in contrast, there [is] no such degree of self-sufficiency. This is necessarily true [be]cause the first requisite of an industrial economy is [di]vision of labor—the specialization of jobs—so that one [fa]mily no longer attempts to produce by itself most of [wh]at it needs in goods and services. Rather, the worker [co]ncentrates on turning out one thing which may be sold [or] only one part of a marketable product, and thereby [pr]ovides himself with the wherewithal to buy the goods [an]d services he needs. In other words, in an industrial

But in a highly industrialized economy, on a "money" rather than a "goods" basis, the livelihood of many is endangered by a break in the flow of production and exchange.

economy the people are of necessity living on a "money basis instead of a "goods" basis. They produce somethin to sell for money and with this money they obtain tl power to command the things made by others which the must have in order to live. As long as the articles the produce can be sold, the stream of money continues, an they are able to buy the food and clothing and shelter the need. But if the chain is broken—if the goods are no produced, or if the goods produced cannot be sold—tl very livelihood of many people is endangered.

Under such conditions it is not for individual pro ducers a question, as it is in an agricultural economy in year of bad crops, of having less income; it is, for thos who are thus left unemployed, a question of having n income at all, while they continue to owe for food an shelter. The inevitable result, if such unemploymen becomes widespread, is such severe distress and sufferin among the people that something must be done, eithe publicly or privately, for their aid.

This difference in ability of the people to meet their own needs has led to organized effort to prevent depressions or mitigate their effects.

This difference between an industrial economy an an agricultural economy, in the ability of the people them selves to take care of their essential needs, has long bee recognized by students of social and economic problem It has found extensive reflection also in government policies. Efforts have been made to guard against thos conditions which lead to recurrent periods of depressio to stabilize employment and tenure of work, to facilita the finding of new jobs, and to provide aid for those wh are unable to find jobs either through private organizatio or more recently through governmental organizations.

The Historic View of This Problem

Until recently, however, government has not been held responsible for full employment, but only

Until recent years, however, most efforts to stabili business and employment have been largely of an indire character. The reason has been the almost unanimo belief that nothing more was either possible or necessar In other words, it has been the prevailing opinion th neither employers nor government could effectively gua antee continuous full employment. And it has been tl

rther belief that if the government attempted to guartee and maintain full employment it would create nditions much worse for all concerned than if the effort ere not made. Hence it has been concluded by many idents of these problems that the economic system itself ll largely take care of providing jobs for all who want em if it is not subjected to the destructive effects of war, d if an environment conducive to saving and investment maintained by government, by avoiding or discouraging licies and practices which lead to widespread swings in e volume of business activity, such as excessive use of nk credit, monopoly, price-fixing, and needless restraints trade and investment.

for avoiding policies and practices unfavorable to continuous business activity.

Those holding this view have been aware, of course, at in the past the economic system has not lived up to ese high hopes—that there have been recurrent periods severe depression and unemployment. But these failures, ey maintain, have not been the result of inherent weaksses of the system. Rather, they contend, these recurrent riods of severe depression and unemployment have been imarily the result of the wrenching of the economic tem by wars, and of the failure of the government to ep the system cleansed of those policies and practices—cessive credit, monopoly, price and wage rigidities, needs restraints on trade and investment, etc.—which must evitably lead to periodic setbacks.[1]

Failures in the functioning of the system have been attributed to wars or government policies.

e Modern View

In recent years this "historic" view as to the proper ation of government to business and employment has t much of its appeal in certain quarters and a new line thought has developed. This new thought is that govnment should not play merely a passive role, or even nit itself to preventing policies and practices which perience shows always lead to trouble. Rather, according this "modern" approach, government should accept sitive responsibility for assuring full and continuous

A trend has developed in recent years toward more active intervention of government in business and assumption by

[1] The details and implications of these policies and practices and a suggested ;ram for the future in connection with them are discussed at length in Chapters and XX.

government of more responsibility for continuous employment.

employment. As expressed by one of our outstandin commentators:[1]

> Since 1920 men have discovered the principle of prosperit This discovery is much the most important advance in human know edge in modern times. It is the discovery that government can by tl proper use of public funds create a condition of full employment fo all its people. Heaven help the administration which refuses to appl this knowledge in the postwar world. For the war has demonstrate conclusively that unemployment is now an unnecessary and therefor an intolerable evil. The prime lesson of the war in domestic affairs wi be that by the proper use of a small fraction of the funds now devote to engines of destruction, the country can become productive beyon anything ever imagined, and on that productiveness it can maintain high and rising level of prosperity.

Needless to say, those who adhere to this moder view have not arrived at this advanced conclusion by on fell swoop. Back of their conviction is almost 25 years o discussion. Before we examine the tenability of the presen contention of the group, therefore, it will be helpful t trace the development of their argument. This will serv the purpose, not only of throwing the present position int clearer perspective, but of showing that the case for spend ing has been by no means a straight-line development. Firs one argument and then another have been used. Through out the entire period, however, there has been one centr thought. This has been that government, by the use of it spending power, can create and maintain employment.

Development of the Modern View

Recommendation of the President's Conference on Unem ployment (1923)

In 1923 a committee of the President's Conference on Unemployment recommended controls of

In point of time the first notable break with "hi toric" thinking on the part that government should pla in the stabilization of employment was the recommend tions of a committee growing out of the President Conference on Unemployment in 1921. This conferen was called "primarily to consider relief for four to fi million unemployed resulting from the business slump 1921." From the discussion of that problem came "t

[1] Walter Lippmann, *New York Herald Tribune*, Nov. 26, 1942.

construction at peak of employment and use of backlog of public works in period of declining business activity.

oposal that an exhaustive investigation should be made the whole problem of unemployment and of methods stabilizing business and industry so as to prevent the st waves of suffering which result from the valleys in e so-called business cycle." [1] A committee was appointed r this purpose, the report of which was published in 23. Specifically it proposed ten "remedies." Of these ;ht were strictly "orthodox." But two of the recom- endations broke new ground in the public thinking of is country. The first of these was "control of public and ivate construction, including construction by public ilities, at or near the peak of the business cycle"; the cond, which is even more important in the development the idea here being discussed was "construction of blic works in the depression." [2]

This latter proposal, construction of public works the depression, did not mean, in the opinion of the com- ittee, that in times of poor business the government ould develop a new great public-works program of the aracter which has become familiar in the past few years d which currently is being proposed for the postwar riod. Rather, what the committee had in mind was that iring periods of good business the government should rtail its spending for public works with the view of ilding up a backlog of needed projects which could be lled upon in times of declining business activity. The guments of the committee for this proposal, as well as garding the difficulties involved, were stated as follows:[3]

> Holding back public works and private construction for periods depression not only gives employment to large numbers of workers en it is most needed but creates a demand for raw materials for con- uction which in turn stimulates other industries to offer employ- nt. It maintains the buying power of those directly or indirectly ployed, it creates a market for goods, and it enables the workers ectly or indirectly employed to buy the products of other industries. ally, construction work in a period of industrial depression, when ts are lower, is economical.
>
> The essential steps in any general program are to plan construc-

[1] *Business Cycles and Unemployment,* Report and Recommendations of a mittee of the President's Conference on Unemployment, New York, 1923, p. v.

[2] *Ibid.,* p. xix.

[3] *Ibid.,* pp. xxviii–xxix.

tion work, private or public, long in advance with reference to th cyclical movement of business, and in the case of public works to pa the necessary legislative appropriations when facts about the trend (business show that it is sound policy to spend money for such purpose

If it were possible for a smaller percentage of public worl projects to be undertaken in periods when private industry is activ so that more work might be done during periods when private indu try is slack, the government would not compete with private industr to so great an extent in times of prosperity and thus would not be factor in the inflation of money rates, prices of materials, and en ployment.

The Committee calls attention to the need for careful draftir of laws to insure a policy of reserving public works projects, if this to be done effectively. The need for fixing the responsibility for t preparation of such plans in advance, the importance of securing t release of the projects at the right time by legislation, and the pr visions for financing should be considered with special relation to t obstacles, legal and others, which the particular public authority wou have to overcome. While the difficulties are great, everything which c be accomplished in this way is valuable.

No steps were taken, however, to develop such a backlog.

As stated above, this recommendation was publishe in 1923. It aroused considerable interest at the time ar was referred to occasionally during the following year No positive steps, however, were ever taken by the go ernment to put it into effect.

Renewal of the Demand for Spending (1929–1933)

The next step in the development of the idea th government spending to stimulate business is sound publ policy came with the increase of unemployment followir the sharp downturn of business in 1929. It is almost nev possible to determine with exactness just who or wh group originates such an idea, and in the present case it of no particular importance. It is sufficient to note th various groups of academicians actively sponsored tl proposal, through public statements, pamphlets, etc., ar were supported by many others in positions of more or le public influence.[1]

The idea also found limited support with the incur bent Republican Administration. President Hoover, in t 1932 campaign, repeatedly defended the governmen

[1] *Cf.* Raymond Moley, *After Seven Years,* Harper & Brothers, New Yo 1939, pp. 173, 367–368.

:tempt to support agricultural prices through the Farm oan Board; the using of federal funds to develop our ierchant fleet, and to aid various financial institutions irough the Reconstruction Finance Corporation; the epping-up of the public-works program; and the failure bring the budget into balance. Governor Roosevelt, the emocratic candidate, in contrast, vigorously opposed ich spending and repeatedly attacked the incumbent dministration for its failure to hew more closely to the ie of orthodox finance. He maintained that each of these evelopments reflected a willingness on the part of the dministration to use federal funds to stimulate, or at ast to prevent further contraction of, the volume of usiness activity. To Mr. Roosevelt this was dangerous olicy. As a believer in the traditional role which government should play in relation to the business trend, it was is opinion at that time that the greatest contribution overnment could make to economic recovery was to balice the budget by reducing expenditures.

In early 1930s government spending was used to a limited extent to revive business activity, but reduction of expenditures was more successfully advocated.

he "Prime-the-Pump" Argument

The 1932 campaign discussion on government ending, however, and the victory of Mr. Roosevelt who pposed such a policy had no appreciable influence on ie demand for a government spending program. Rather, business activity and prices continued to drop and iemployment increased, the demand grew stronger and ronger. Our economic system, so the argument ran, could ot rise from the depression of its own accord. The liquidaon had been too complete. Confidence in the future was o low. We were at "dead center." Something must be one—some stimulant must be injected—to get us on the pgrade again. In a word, we must "prime the pump."

By 1933, however, the demand for a spending program had grown stronger, to "prime the pump."

Only the government, the argument continued, uld provide this additional stimulation. It could and iould do it through injecting new "purchasing power" ito the economic system by means of a spending program. y "purchasing power," the sponsors of this idea did not iean the ability to buy goods which comes from being id for the production of goods or the rendering of servis. Government, of course, except so far as it operates

The argument was that deficit spending would inject new purchasing power into the economy.

self-supporting businesses, has no purchasing power (this character to distribute. "Purchasing power," as th group used the term, was "checkbook money" to be bo rowed by the government from commercial banks. Wh these advocates were insisting upon, in other words, w not just the expenditure of more money by governmen but the creation and spending of "new purchasing power of "new money." Only in this way, it was maintaine could the needed additional purchasing power be injecte into the economic system. If the spending was within th limits of a balanced budget, or if the additional spendir was covered by borrowing the savings of the public, r new money or purchasing power would be created. A that would happen would be a reshuffling of existing pu chasing power. For the spending to increase busine activity and create employment, therefore, new mone must be created by operating the government at a defic and financing the deficit by borrowing from the bank

Then, it was argued, business would take the upgrade, and taxation under prosperous conditions would pay off the debt.

Just how much of such additional "new purchasin power" would be necessary to get the economic system c the upgrade again, was, as would be expected, a matter (considerable disagreement among the active proponen of the prime-the-pump idea. Some thought that as litt as a billion dollars would be sufficient; others recommend several times this amount. Actually, for the purpose of th argument, this point was of small importance. What w needed, all the proponents agreed, was for the governme to start a spending program and get business moving (the upgrade again. Once that was done, confidence wou be restored and business and private investors would "tal over." That is, according to the prime-the-pump thes once we got business moving upward again, the tren would continue and the government not only would sto the additional spending, but, because of the increased pro perity, could raise enough in taxation to pay off the de created by the spending.[1]

[1] It is difficult to cite specific authoritative references on "pump primir because most of the active work and argument was by word of mouth, memoran and "petitions." The argument as just outlined here was presented by Prof. Ja Harvey Rogers of Yale University before the New York Chapter of the Ameri Statistical Association, Apr. 17, 1933. Prof. Rogers later became one of the import financial advisors of the Administration.

ift in Public Policy (1933)

The prime-the-pump argument attracted an ex-aordinarily wide following in the latter part of 1932 and e first part of 1933. The argument failed, however, to nvince President-elect Roosevelt. As noted earlier, in his mpaign he had emphasized conservative financial pro-dure and a balanced budget, and he carried this view to office with him. Accordingly, a week after his inaugu-tion, or on Mar. 10, 1933, he sent a message to Congress, king for a reduction in government spending, in which said:[1]

> For three long years the federal government has been on the ad toward bankruptcy. . . . With the utmost seriousness I point out the Congress the profound effect of this fact upon our national onomy. It has contributed to the recent collapse of our financial ucture. It has accentuated the stagnation of the economic life of our ople. It has added to the ranks of the unemployed. . . . Too often in cent history liberal governments have been wrecked on the rocks of se fiscal policy.

In 1933 the new Administration at first followed the balanced budget policy.

Those in favor of "pump priming," however, still d confidence in their thesis, and the demand for action as not lessened by this statement of the President, nor his requested economies in government expenditures gregating approximately a billion dollars. Rather, they ntinued to urge spending on every occasion.

Later, however, it adopted a public-works program to hasten recovery.

On June 16, 1933, the advocates of government ending won their first substantial victory in Congress. n that day an appropriation of 3 billion dollars was voted Congress for public works and various other expendi-res, to be made largely at the discretion of the President. his appropriation, in the words of the President, "marked e first clear recognition of the federal government's sponsibility to formulate and administer a nation-wide ogram of public works."[2]

Adoption of this public-works program did not ean, in the minds of either its advocates in private life of Congress and the President, that we were starting a permanently unbalanced budget. Rather, the thought

[1] *The Public Papers and Addresses of Franklin D. Roosevelt,* Vol. II, p. 49.
[2] *Ibid.,* p. 250.

back of the appropriation was that, by this expenditu recovery would be hastened, with the result that t national income would increase and the governme thereby would be enabled to collect more in revenues a thus soon bring the budget into balance. In harmony wi this thought, the act carrying the appropriation provid that 2½ per cent of the aggregate expenditures ma under the act should be set aside in a sinking fund for t retirement of the debt incurred. President Roosevelt a reflected the same intention in his first budget messa Jan. 3, 1934, in which he asked for an additional 2 billi dollars for "recovery and relief." He said:

This was extended in 1934 and 1935, still with a look ahead to a balanced budget.

> The government during the balance of this calendar year sho plan to bring its 1936 expenditures, including recovery and reli within revenues expected in the fiscal year 1936. . . . We should plan have a definitely balanced budget in the third year of recovery a from that time on seek a continuing reduction of the national debt.

This view—that it was only a matter of time un the budget would be balanced—persisted for the next or 4 years. This perhaps is shown most clearly by t President's own words in his various budget messages. January 1935, he said:

> It is evident that we have not yet reached the point at whic complete balance of the budget can be obtained. I am, however, su mitting to the Congress a budget for the fiscal year 1936 which b ances except for expenditures to give work to the unemployed. . Such deficit as occurs will be due solely to this cause, and it may expected to decline as rapidly as private industry is able to re-empl those who are now without work.

In January 1936, the President said:

> Our policy is succeeding. The figures prove it. Secure in knowledge that steadily decreasing deficits will turn in time to stead increasing surpluses, and that it is the deficit of today that is maki possible the surplus of tomorrow, let us pursue the course that we ha mapped.

In 1937, for 1937–1938, a balanced budget was submitted,

In January 1937 the budget as submitted by t President for the fiscal year 1938 was in balance, provid "recovery and relief" expenditures could be held approximately 1.8 billion dollars. Actually such expend tures exceeded this amount substantially; they came

238 billion. General expenditures also were 400 million llars above budget estimates, and revenues fell a billion llars below the total estimated in the budget message. he net result was that the fiscal year 1938 ended with a ficit of almost 1.4 billion dollars. But even this marked major step toward a balanced budget. It was a reduction over 50 per cent from the deficit of the previous year.

but a deficit still resulted, though reduced from previous year.

The 1938 budget message, covering the fiscal year 939, more or less repeated the same story. In this the esident called for a reduction of 500 million dollars, rgely in expenditures for public works. Had this reducon ever been carried through, it would have reduced the ficit to less than a billion dollars, even with the anticited decline in federal revenue. But the reduction, for asons which will be explained later, never materialized. ather, during the course of the year there was a complete versal of fiscal policy and a new spending program was arted.

By 1939, however, a new spending program was adopted, with a reversal of fiscal policy.

Before turning to this, however, we need to look at new argument for government spending which deloped following 1933. This is what was known as the nultiplier theory," a theory apparently first expounded print by R. J. Kahn[1] and later developed and publicized John Maynard Keynes,[2] with whose name the idea has come most closely associated.

The Multiplier Theory

The multiplier theory, which has been used by many rationalize government spending, attempts to analyze e relationship between investment (private or public) d national income. In brief form, it holds that, if real instment increases, national income will increase by some ultiple of the increase in investment. That is, if for some ason the production of machinery or the construction of ps or buildings increases by a total amount, for example, a million dollars, national income will increase by *more an* a million dollars. The increase in national income

The "multiplier theory," with J. M. Keynes its main advocate, was used after 1933 to rationalize government spending.

[1] *Economic Journal*, June 1931, pp. 173–198.

[2] See especially his *The General Theory of Employment, Interest, and Money*, Macmillan Company, 1936, Chap. 10.

This theory includes the well-established concept that an investment results in a volume of business and employment amounting to some multiple of the original outlay.

produced by the new investment when divided by the i crease in investment yields a number which is called t "multiplier." If, for example, the increase in investment 1 million dollars and the subsequent increase in natior income 4 million dollars, the multiplier is said to be 4.[1]

In a little more detail it may be said that the "mul plier" theory consists of two distinct parts. The first is t simple idea that, when $1 is invested, it will start a cha of events resulting in a total volume of business and er ployment which will be some multiple of the original e penditure. Obviously there is nothing particularly n in this concept. It has been recognized as an inhere part of the working of the economic system as long there have been writers on the subject of money a economics.

But the theory goes on to present what determines the size of the multiplier and to fortify government spending.

The second part of this theory is of quite a differe character and it is this which is the distinguishing featu of the Keynesian line of reasoning. This is (1) the co tention as to what it is that determines the size of t multiplier and (2) the use of the multiplier argument support the idea of government spending.

What Determines the Size of the Multiplier?

What is the quantitative relation of investment national income? Or, in other words, what determines t size of the multiplier? The size of the multiplier depen Keynes believes, on the so-called "marginal propensity consume." He uses this somewhat impressive term to d scribe what happens to consumption (expenditure consumption goods) as income moves up or down. If up receipt of an additional dollar of income an individu spends 80 cents and saves 20 cents, his marginal propensi to consume is said to be 8/10 ($0.80/$1.00); if out of t dollar he spends 70 cents and saves 30 cents, his margir propensity to consume is said to be 7/10 ($0.70/$1.00 In other words, saying that the "marginal propensity consume" is 8/10, or 7/10, or 6/10 is merely a short w of saying that an increase in income of $1, for examp will be divided between consumption and savings in t ratio of 8:2 or 7:3 or 6:4, etc.

[1] *The General Theory of Employment, Interest, and Money,* The Macmil Company, 1936, pp. 116–117.

The size of the multiplier is held to be dependent on the "marginal propensity to consume," which is the percentage of increase in income that would be spent on consumption.

The marginal propensity to consume is translated :o the multiplier in the following way: If an additional llar is spent on the production of locomotives, this eans that the manufacturer of locomotives pays out one ditional dollar for wages, salaries, materials, etc. The llar thus finds its way into the hands of ultimate conmers. The marginal propensity to consume (*e.g.*, 8/10) dicates that these consumers will save 20 cents and inease their consumption by 80 cents. An increase in the oduction of consumers' goods will therefore be required meet this new demand. The production of consumers' ods will therefore be increased by 80 cents; and the oducers of consumer goods, through the process of ineasing production, will pay out for new wages, salaries, d the purchase of new raw materials a total of 80 cents. ius this 80 cents likewise finds its way into the hands ultimate consumers who will, the marginal propensity consume tells us, save 16 cents (2/10 × 80) and increase eir consumption by 64 cents (8/10 × 80). But this will quire a further increase in the production of consumers ods to meet the new (64 cents) demand, and a total of cents will therefore be paid out in wages and salaries, d for raw materials. And this 64 cents will ultimately id its way into the hands of consumers. The latter will ve 12.8 cents (2/10 × 64) and increase their consumpon by 51.2 cents (8/10 × 64).

The process is shown in the accompanying table. fter the process has ended, column (1) will total $5 hich sum[1] represents the increase in national income.

	(1) Received by consumers	(2) Consumers will spend	(3) Consumers will save
step.	$1.00	$0.80	$0.20
step.	0.80	0.64	0.16
step.	0.64	0.512	0.128
step.	0.512	0.4096	0.1024
step.	0.4096	0.32768	0.08192
step.	0.32768	etc.	etc.
	etc.		

[1] More accurately, the sum of column (1) will approach $5 as a limit and esents the increase in the national income; the sum of column (3) will approach as a limit. Keynes' formula merely summarizes ths process: $K = \frac{1}{1 - mpc}$.

Inasmuch as the initial investment was $1, the multiplier said to be 5 ($5 divided by $1).

The Assumptions Underlying the Theory

Before going on to an examination of the way which the theory of the multiplier has been used to suppo government spending, it may be useful to emphasize th *it is a theory* and to indicate the main assumptions c which it is based.

The multiplier theory assumes (1) that increased incomes will cause increased production rather than increased prices;

The theory assumes (1) that when ultimate co sumers take this new money into the market and dema goods, their demand will be met by increased producti of consumers' goods and *not* by rises in the prices of goo in stock; that is, by rises in prices of those goods whi have *already been produced.* Clearly, employment a national income will not go up if the new money in t hands of consumers means, not increased production, b merely higher prices for goods already produced.

(2) that increased investment in one part of the economy will not be canceled out by reduced investment in another;

The theory of the multiplier assumes (2) that wh the effect of some piece of investment in one part of t economy is working itself out investment does not decli in the other parts of the economy. If, for example, gover ment investment goes up by $1 and private investme declines by $1, the net multiplier effect on national inco will be zero. And if businessmen expect government i vestment to be financed out of large and continui deficits "they will be affected by fear of ultimately i paired public credit, or of 'inflation,' or if not these th at least by fear of burdensome taxation in the futu These are all retarding forces."[1] And the *net* effect may a decline in investment as a whole. That is, the increase government investment may be more than offset by decline in private investment.

and (3) that the marginal propensity to consume remains constant at all levels of employment.

The theory of the multiplier assumes (3) that t so-called "marginal propensity to consume" remains co stant while the increased investment is producing its mul plier effect. This is a workable assumption only if t increases in investment are very small. Even then it is n

[1] J. M. Clark, "An Appraisal of the Workability of Compensatory Devic *American Economic Review,* Vol. 29, Supplement C, Part 2, p. 202.

ctly valid.[1] But for large increases in investment it is workable and may be distinctly misleading. As Keynes nself says:[2]

> If we are considering changes of a substantial amount, we have llow for a progressive change in the marginal propensity to cone and hence in the multiplier. The marginal propensity to consume ot constant for all levels of employment, and it is probable that e will be, as a rule, a tendency for it to diminish as employment eases; when real income increases, that is to say, the community wish to consume a gradually diminishing proportion of it.

w the Multiplier Theory Is Used to Support Government Spending

We come now to the way in which the multiplier ory was used to support the idea of government spend-. Mr. Keynes first advanced the theory publicly in the ited States in 1933, in a pamphlet called "The Means Prosperity." Later that year he specifically recomnded his theory of spending to President Roosevelt in open letter as follows:[3]

> In the first stage of the technique of recovery, I lay overwhelm- emphasis on the increase of national purchasing power resulting n governmental expenditure which is financed by loans and not ely a transfer, through taxation, from existing incomes. Nothing counts in comparison with this. . . . In the past, orthodox finance regarded war as the only legitimate excuse for creating employment government expenditure. You, Mr. President, having cast off such ers, are free to engage in the interests of peace and prosperity the nique which hitherto has only been allowed to serve the purpose of and destruction.

Keynes used the multiplier theory to recommend a continuous government spending program, and this basis was used by the Administration for its spending policy.

That this pamphlet, and perhaps the letter as well, l a profound effect upon those who were guiding fiscal icy in this country is scarcely open to debate. By this

[1] It is not strictly valid because even a very small increase in investment i cause national income to rise, and the marginal propensity to consume to fall.

[2] Keynes, *op. cit.*, p. 120.

[3] Public letter to President Roosevelt, *New York Times*, Dec. 31, 1933, VIII, p. 2.

time, it is true, as noted above, we were already well alo on a spending program. But the Keynesian approach re resented such a distinct advance in the argument f spending, as compared with the pump-priming theo which largely had been used up to then, that it gave enormous impetus to the policy. The pump-priming the fundamentally justified nothing more than a "shot in t arm." It did not conceivably provide a theoretical ba for continuing public expenditure in large volume ov a period of years until full employment was reached. T "multiplier" argument, in contrast, did provide such theoretical basis. Those in favor of spending, therefo quickly accepted the Keynesian analysis. In general it m be said that by the end of 1933 the multiplier theory h almost completely superseded the prime-the-pump arg ment for public spending, and it continued to domin the thinking of those in favor of government spendi until the first part of 1938.

From 1938, however, the basis was shifted to the theory of the "mature economy."

It was about then that still another line of re soning was developed in support of such spending– theory which justifies continuous heavy government ou lays for the purpose of stabilizing business and emplo ment. This is the "mature-economy" theory. To apprecia the reason for the development of this theory we need pick up again the record of fiscal policy as revealed in t budget message quotations of President Roosevelt.

The Multiplier Theory Found Inadequate

With the prospect of a balanced budget, expenditures had begun to be curtailed.

It will be recalled that President Roosevelt, in budget message of January 1938, called for a reducti in expenditures of more than 500 million dollars. This r duction, if it had been carried out, would have resulted a deficit of less than 1,000 million dollars in the fiscal ye ending June 30, 1939. Such a recommendation clearly r flected, not only the desire, but the belief, that the budg could and should be balanced by a reduction of fede expenditures. In other words, as of January 1938, the A ministration was still definitely following the principle a cyclically balanced budget—the principle that gover ment should spend money during a period of depressi

it as the country approaches prosperity it should curtail its outlay, bring the budget into balance, and gradually start paying off the debt. All of this, of course, was strictly in line with the Keynesian analysis, since the multiplier theory justifies government spending only to the degree necessary to create full employment, and assumes that at that point the national income will be such that the budget can be balanced and the public debt begin to be reduced.

Between January 1938 and April 1938, however, there was a complete reversal of the fiscal policy of the administration. The apparent cause of this was the sudden downturn in the volume of business activity which began in the summer of 1937. This decline, which was of remarkable severity, necessarily created no small amount of consternation among spending advocates. Since 1933 they had defended deficit spending on the grounds that it would make a definite contribution to the volume of purchasing power in the country and thereby so stimulate business activity and the national income that the necessity for the spending would disappear and the budget could be brought into balance.

The sharp decline of business activity in 1937–1938 prompted the shift in policy.

With the business decline of 1937–1938 this whole line of reasoning became untenable. This does not mean that the downturn of business was caused solely or even primarily by the reduction of the government deficit in the fiscal year 1938. Many factors contributed to the decline: imposition of an undistributed profits tax on business; overexpansion of consumer credit; statements by government officials that industrial prices were too high; the proposal to reorganize the federal judiciary system, including the Supreme Court; tolerance of sit-down strikes by government officials; sharp increase in wage rates; arbitrary tightening of interest rates; etc. But to the advocates of government spending these were at most nothing more than minor factors. To them the great cause of the business decline was to be found in the record of the "net contribution" of the government to the volume of purchasing power in the economic system. In the fiscal year ending June 30, 1935, this "net contribution" had been 2,838 million dollars. In the fiscal year 1936 it in-

creased to 3,389 million. Then in 1937 it was reduced 2,459 million, and in 1938 to only 456 million.[1]

As the proponents of spending analyzed the pro lem, although the economic system had got well started the upgrade by spending, then when the spending w curtailed, instead of continuing its ascent to a higher lev it immediately went into a sharp recession. Clearly, ther fore, in their opinion, the government must reverse "economy" drive and again come to the rescue of t economic system by sharply increasing expenditures. T specific program providing for such increased spendi was presented by President Roosevelt in a special messa to Congress in April 1938. This asked for further lar appropriations, chiefly for public works and increased loa by the Reconstruction Finance Corporation. In the aggr gate, this revised budget for the fiscal year 1939 call for total expenditures of 9,500 million dollars—an increa of 53 per cent over the original budget submitted for th year 4 months earlier.

The government attributed the business recession to the reduction of expenditures.

To the advocates of spending, however, it was n sufficient merely to have the government return to a poli of spending. Equally clear was the fact that there mu be a new examination of the whole theory of spendir The old "prime-the-pump" argument and the "mul plier" theory might be true, but obviously they did n go far enough. A theory must be developed which wou explain why the economic system failed to remain pro perous when government spending was curtailed.

The "Mature-economy" Theory

It was now held that our economy had

The thesis which was developed to meet this ne situation was that our economy had reached such a sta of maturity that those economic forces which former

[1] The "net contribution" means roughly the amount which the Treas has to borrow in the open market. It always is less than the deficit by the amo which the Treasury obtains by selling its obligations to government trust fu social security, etc. The deficits for the years mentioned were as follows:

Fiscal Year	Million Dollars
1935	$3,210
1936	4,550
1937	3,148
1938	1,384

d enabled us to attain and sustain prosperity no longer re, or could be, effective. It was concluded, therefore, it we must have government spending, not just as a nporary policy during depressions, but as a permanent licy. In other words, government spending must be ought of in absolute terms—in terms of the government a spender being a permanent stabilizing element in the onomy. Up to this time, when spending was discussed always meant deficit spending, or what has been referred above as the "net contribution." Now, with the de-opment of this new line of reasoning, spending meant total number of dollars paid out by government. The et-contribution" concept, it is true, remained impor-it, but over and above that was the further idea that no time must there be substantial retrenchment, as was visaged under the multiplier theory and as was practiced 1936–1937. The government should adopt a spending ogram and keep it going. At first most of such spending, could be assumed, would result in a deficit and so be a et contribution." Then, as business improved and the tional income increased, tax receipts would increase and deficit would tend to disappear. But this, according to s new theory, would not mean that the total spending government should be reduced to the level previous to adoption of the spending program. As explained by esident Roosevelt in his 1939 budget message:

become so mature that economic forces formerly sufficient could no longer pull the nation out of depression.

> Sound progress toward a budget that is formally balanced is to be made by heavily slashing expenditures or drastically increasing es. On the contrary, it is to be sought by employing every effective ice we may have at our command for promoting a steady recovery, ch means steady progress toward the goal of full utilization of our ources.

Deficit spending was to be continued and increased until the national income was so large that tax receipts would balance expenditures.

In other words, under this new theory, government nding should be continued and increased until the na-nal income becomes so large that the budget more or s automatically becomes balanced. At that point the nding ought to be "tapered off"[1] until such time as the tional income starts to fall and then the spending should stepped up again and continued until full recovery is ained.

[1] This is the expression of Prof. Alvin Hansen, with whose name this theory been closely associated. See *American Economic Review,* March 1939, p. 14.

Premises of the Mature-economy Theory

The premises of the "mature economy" theory were (1) that a declining rate of population growth reduced outlets for investment and caused oversaving and a shortage of purchasing power;

This "mature-economy" theory was based up three premises.[1] The first of these was that the rate of population growth was declining. Because of this, it contended, there was a slower increase in the demand productive expansion and consequently were fewer ou lets for capital investment. We were certain, therefo as this group explained the problem, to have an econo in which there was a constant oversaving by the pub This meant, according to their line of reasoning, a sho age in the volume of purchasing power with which to b the products of industry and thus an inability on part of private business to furnish full employment our workers.

(2) that the disappearance of the geographic frontier checked pioneering as a renewal of opportunity and a source of new purchasing power;

The second premise related to the disappearance our geographical frontier. In the past, it was maintain during periods of depression the unemployed could lea the towns and cities, go out and take up free land on t frontier, and thereby not only support themselves b create a volume of purchasing power which served as force tending to lift the whole volume of business activit With the disappearance of the geographical frontier t possibility was no longer present. According to the matu economy logic, this meant that one of the strongest e ments leading to self-recovery of our economic system a the perpetuation of good business had ceased to exist.

and (3) that no great new industry was any longer in sight to attract investment and furnish jobs.

The last of the three premises upon which the m ture-economy thesis was based was that there is no po sibility of some great new industry developing whi could furnish jobs for the unemployed and provide outlet for the savings of the public. Again a contrast w drawn with earlier times. In the past, it was pointed ou the development of great industries such as steel or aut mobiles, or the building of the railroads, had carried t economic system along a gradually ascending curve activity. Nothing comparable to those industries, it w maintained, could be anticipated in the future.

[1] *An Economic Program for American Democracy,* by Seven Harvard Tufts Economists (Richard V. Gilbert; George H. Hildebrand, Jr.; Arthur W. Stua Maxine Yaple Sweezy; Paul M. Sweezy; Lorie Tarshis; and John D. Wilson), T Vanguard Press, New York, 1938, pp. 18–23. Mr. Gilbert later became an Assista Secretary of Commerce.

The net effect of these three developments—the de-
ning rate of population, the disappearance of the geo-
aphical frontier, and the absence of any new, large
lustry—was certain to lead, in the opinion of the ad-
ents to this line of thought, to permanent unemploy-
nt for many of our workers, unless the government
intained a large spending program.[1]

Our industrial population, they argued, may be ughly divided into three categories: those engaged in ilding factories and industrial equipment, those em- yed in using such equipment to turn out goods, and se whose job it is to replace and keep such equipment good running order. Henceforth, according to the lyses of this group, unless the government followed a manent spending program, there would be work for y the last two groups: those who turn out goods and se whose job it is to replace and keep the industrial chine in good working order. That portion of the in- strial working population which heretofore had found ployment in the building of an expanding industry, y said, would be without jobs. And this, it was main- ned, would be necessarily so regardless of what the gov- ment did in the way of regulation or absence of regu- on, in the way of encouragement or lack of encourage- nt to individual enterprises, or in the way of taxation or k of taxation. Only government spending in a volume ial to the "oversaving" of money by the public, the up concluded, could prevent the permanent unem- yment of that portion of our working population ich heretofore had found jobs in the building of an ex- ding industrial organization. Or, in the words of one up of sponsors of this theory:[2]

Therefore, it was argued, the proportion of workers engaged in building factories and industrial equipment—in industrial expansion—would have less employment, unless a long-range program of public investment should be undertaken.

We advocate a long-run program of public investment financed ugh the borrowing of savings which would otherwise go to waste. s investment will increase the real wealth of the country, both ctly and indirectly, by increasing the demand for the products of ustry. Having a market for its products, industry will be able to oduce the improvements in technology and methods of production ch are continually being discovered. The result will be a steady ease in national income accompanying the increase in the public private debt. If the policies advocated here are steadfastly pursued,

[1] *Ibid.*, Chap. II.
[2] *Ibid.*, pp. 71–72,

the national income can reasonably be expected to increase at a s tained rate of $4 to $5 billion a year. This increase in the natio income will be accompanied by a rise in the interest charge on pul debt of at most $100 million a year.

The expansion of public debt at a rate sufficient to absorb the nation's savings was held sound and necessary.

This new theory, then, clearly envisaged over years "a steadily increasing total of public debt."[1] To t advocates of the mature-economy thesis this was not co sidered a danger. To them "the expansion of debt at a r sufficient to absorb the nation's saving is both sound a necessary. . . . What we should worry about is not increase in debt but the increase in savings beyond amount that can be absorbed by investment."[2] Furth it is maintained that interest on the debt, or the carryi charge, does not constitute a burden which need ca concern. In the words of the Harvard and Tufts econom quoted above:[3]

> The payment of interest on the public debt does not in it constitute a deduction from the nation's income. What the governm raises in taxes to meet debt charges it pays out again in interest to holders of its bonds. The extent to which a burden is involved depe on who holds the bonds. This point is of importance in considering extent to which the debt will impose a burden on future generati The same generation that pays the taxes inevitably receives the inte payments. It is thus up to each generation to determine by the wa apportions its taxes how much of a real burden interest payments the public debt shall be. . . .
>
> If a small group of wealthy families holds all the governm bonds and the rest of the community pays all the taxes, the burden the great majority will clearly be at its maximum. Since this majo also comprises the bulk of the producers, the payment of interest the debt would have the undesirable effect of transferring income f the productive to the idle members of the community. Even so, the income of the working, tax-paying majority of the nation might be larger with the debt than without it. If the sums raised by borrow are spent on projects adding to the total of the nation's real goods services, as is proposed in this program, the debt will more than for itself (to say nothing of the vital importance of avoiding the w and hardship implicit in allowing resources to remain idle). . Americans today need have no fear of borrowing from their

[1] *An Economic Program for American Democracy*, p. 62.

[2] *Ibid.*, p. 65. One member of this school has stated that our public ultimately might reach 4,000 billion dollars without causing us trouble (Seyı Harris, before the Annual Meeting of the American Economic Association, De ber 1941).

[3] *Ibid.*, pp. 68–70.

thy families to continue the process of improving and expanding :eal capital equipment of their country. Even if the few receive all interest and the rest of the country pay all the taxes, the real in- e of the rest of the country will steadily increase.

But there is no need for so uneven a distribution of benefits as just assumed. In the first place, by no means all the public debt is by or in the interest of the wealthy section of the community. e amounts are held by banks, and the interest paid on them can be ed as in part a charge to cover the cost of services provided the try by the banks. Secondly, there is no reason why the holders of rnment bonds should escape their fair share of taxation. . . . The lishment of an equitable tax system will . . . do much to reduce minimum the real burden of debt charges.

As already indicated, this mature-economy argu- it was adopted as the official policy of the Administra- following the sharp downturn in the trend of busi- in 1937–1938. In his 1940 budget message[1] President sevelt said the government should "retire debt in peri- of economic prosperity," but his emphasis, as the fol- ing quotation reveals, was on the contribution which ernment can make "to sustain economic activity . . . pending."

In his 1940 budget message the President emphasized the contribution of government spending to the sustaining of economic activity.

In the early thirties—prior to 1933—fiscal policy was exceed- simple in theory and extraordinarily disastrous in practice. It con- d in trying to keep expenditures as low as possible in the face of king national income. Persistence in this attempt came near to rupting both our people and our government.

Following 1933 the fiscal policy of the government was more stically adapted to the needs of the people. All about were idle men, factories, and idle funds, and yet the people were in desperate need nore goods than they had the purchasing power to acquire. The rnment deliberately set itself to correct these conditions by bor- ng idle funds to put idle men and idle factories to work.

The deliberate use of government funds and of government t to energize private enterprise—to put purchasing power in the s of those who urgently needed it and to create a demand for the uction of factory and farm—had a profound effect both on govern- and on private incomes. The national income in four years rose er cent from 42 billion dollars in 1933 to 72 billion dollars in 1937, argest absolute rise for any four-year period in our history, not excepting the rise during the World War. Tax revenues rose from lion dollars in the fiscal year 1933 to over 5 billion dollars in the

[1] *The Public Papers and Addresses of Franklin D. Roosevelt,* 1940 Vol.,)–24.

fiscal year 1937, primarily because the people had more income of which to pay taxes. The people paid 3 billion dollars more taxes but they had nearly 10 times more than that, or 30 bill dollars, to spend on other things. This statement deserves a headli

Rapid progress was made toward a balanced budget. By calendar year 1937 excess of government cash outgo over governm cash income had dropped to 331 million dollars.

Unfortunately, just at the time when it seemed that the fede government would be able safely to balance its budget on the basis o national income of approximately 75 billion dollars, maladjustments the economic system began to appear and caused a recession in econo activity. The recession was due to a variety of causes stemming in main from over-optimism, which led the government to curtail its expenditures too abruptly, and business to expand production and r prices too sharply for consumers' purchasing power to keep pa A large volume of unsold goods piled up.

The experience of 1938–1939 removes any doubt as to effectiveness of a fiscal policy related to economic need. The wise ex cise of such a fiscal policy imposes grave responsibility on the gove ment. Government must have the wisdom to use its credit to sust economic activity in periods of economic recession and the courage withhold it and retire debt in periods of economic prosperity.

Spending for Defense

The defense program and the war then made the continuance of heavy spending a necessity.

Following the adoption of the defense program 1940, there was no longer, of course, any occasion justify heavy government expenditures on the grou that they would increase business activity. Then it beca a question of spending whatever amount would produ military supplies in the shortest possible time. With c active entry into the war that policy necessarily was co tinued.

From the proposals that were made in connecti with postwar problems, nevertheless, it is quite clear th the advocates of continued government spending st were active and had a substantial voice in the determin tion of Administration thinking. The details of these pla need not concern us at the moment. Our purpose in t outline has been merely to show how the idea of spendi has developed over the years.

Now a post-war policy of deficit spend-

It is now being maintained, as stated earlier, th the war showed conclusively that if there is adequate go ernment spending full employment can be attained. T

ficulty in the middle thirties, we are told, was simply at the government did not spend enough. This is the rinciple of prosperity" which the adherents to this line thought think has been discovered since 1920—the dis- very, which in their opinion, "is much the most impor- nt advance in human knowledge in modern times." We rn next to an analysis of the opposing line of thought, the arguments against government spending as a means stimulating business activity.

ing for full employment is advocated on the basis of war experience.

Fallacies Involved in the "Modern" View

e Weakness of the 1923 Recommendations

These theories justifying government spending to stimulate business will now be critically analyzed.

It will be recalled that in point of time the first blic recommendation in this country that government nds be used to stimulate or stabilize business activity was at growing out of the President's Conference on Un- ployment in the early twenties. As already has been inted out, this suggestion was not for a spending pro- am as we have come to know spending in recent years. ther, this proposal was that in times of prosperity the vernment hold back on expenditures for public works d capital improvements in order to accumulate a back- ; of needed spending which should be undertaken when business trend turned downward. Instead of resulting a deficit and increased public debt, therefore, the spend- ; always would have been within the limits of a balanced dget.

The recommendations of the Conference on Unemployment in 1923 did not contemplate deficit spending;

Such a proposal from a theoretical point of view, may be granted, has something in its favor. If public penditures could be handled in this manner, it would d to smooth out the peaks and depressions of the busi- s trend. In practice, however, there are two factors ich materially lessen the possible success of such a plan.

The first of these factors is the political considera- ns involved. For the plan to accomplish its purpose it ist be possible to accumulate a backlog of needed spend- ; at the very time that the funds are available for the tlay and in face of the admitted usefulness and desir- lity of the spending. Politically, it must be obvious, such

but even so it is doubtful that its plan of accumulation of a backlog of projects in prosperous times was politically practicable,

accumulation is virtually impossible. Elections are alw just around the corner, and politicians cannot be expect to leave the spending for needed improvements in th districts to be exploited politically by their opponents. is safe to say, therefore, that, regardless of the theoreti merits this proposal may have, in practice the backlog projects is not likely to be accumulated, at least in su cient volume to be of economic significance in count acting a major downturn in the business trend.

and there would be little relation between the location of the projects and the places of reduced business activity,

The second practical objection to this proposal lates to whether the spending can be in the particu locality where it is needed in order to sustain employme and thus tend to hold up the volume of business. Even one overlooks the political improbability of getting plan in operation and assumes that a real backlog of need public works is accumulated during prosperity, the to would be small in relation to the total volume of busin in the country, and, further, it would be for thousands projects scattered from one end of the nation to other. Almost certainly, therefore, there would be lit or no relation between the place where the spending wo have to take place and the need for government aid to s tain employment. Rather, we should probably find th as a result of the spending, the volume of business activ in those sections which still were enjoying a high degree prosperity would be driven to still higher levels, and those sections suffering from a decline the additio activity caused by the spending of funds available for t locality would not be sufficient to make any apprecia difference in the business trend.

nor would the volume of public spending create sufficient employment.

The principle itself, in its most conservative application, shows serious weakness for practical use.

On balance, thus, it is clear that as a practical p gram this early suggestion for having public funds used sustain or stabilize business activity cannot prove effecti For political reasons it would be impossible to follow plan to the extent necessary to make a real dent on depression and, even if by some means this weakness w eliminated and the plan were adopted, it would not able to accomplish the high purposes of which theoretica it appears capable. Quite obviously, therefore, this s gestion does not warrant abandonment of the princi that the determinants of public spending should be t

vernment needs and the maintenance of an economical ministration.

e Argument against the Pump-priming Theory

Although the 1923 recommendation just discussed istorically interesting, it cannot properly be considered her logically or practically as the forerunner of the nding programs of the past several years. The start of se spending programs was the prime-the-pump argunt of 1932–1933. This argument was, it will be recalled, t our economic system was so weakened as a result of depression and public confidence was so low, that we st have a government spending program for nonproctive public works as a stimulant to get us started on upgrade again.

As to the "pump-priming" theory:

In retrospect and in relation to the spending theories er developed, this prime-the-pump argument was so ve that it is difficult to appreciate why it attained such ollowing.

1. The economic system clearly was not in such a te of collapse that it must have an outside stimulant in ler to get started on the uptrend again. This is best shown the statistics of production. Industrial production as asured by the Federal Reserve Board index hit its low nt in the middle of 1932 and between then and the ption of the spending program in June 1933 had risen over 50 per cent.[1]

the economic system in 1933 did not require an outside stimulus;

2. The record also indicates that public confidence s not at such a low level as the proponents of pumpming would have had us believe. There was much talk whether our system of individual enterprise was dect, and probably many persons became convinced. But and reality frequently are quite different things, and t was true in this case. Perhaps the clearest evidence of was the trend of the stock market, for in those days as unquestionably the best measure we had of the pub- appraisal of the future, or at least the appraisal of that

nor was confidence of investors at so low a level as then argued.

[1] *Federal Reserve Bulletin,* August 1940, p. 825. Specifically the increase from 53 in July 1932 to 78 in June 1933 (1935–39 = 100). Parenthetically, it also be noted that in the next 12 months after the spending program was ed production rose by only one point, or from 78 to 79.

portion of the public which economically was able to g
expression to its opinion. And the record shows that
1932 stock prices more than doubled.[1] Clearly Americ
investors, and those with surplus funds, did not reg
our economic system as on the rocks and incapable
recovery.

3. The pumping of "purchasing power" into
economic system by the government does not in its
start a process which can be self-perpetuating. A busin
organization which believes it can get a return on its
vestment makes an outlay for raw materials, wages, a
other costs of production and gets, as a result, a prod
for sale on the market. If the business is successful, the p
ceeds from the sale of the goods will be sufficient to b
further raw materials, pay labor, etc., and thus conti
the manufacturing process. In this case we have a se
perpetuating system of activity which provides a c
tinuous stream of products for customers, gives empl
ment to labor, and yields at least enough return on
capital invested to keep the concern going.

Unlike business investment, which creates self-perpetuating activity, "pump-priming" is a single-shot operation.

Now contrast this with government pump-prim
expenditures for, say, the building of a public park. O
viously, in this instance, no salable produce is produ
and no service is performed which by its nature has a m
ket value that returns to the employer the wherewitha
continue the process. Of course, the recipients of the g
ernment funds spend their money for food, clothing,
shelter and such spending spreads out through the econo
system in various ways. But so does the spending of
wages of the nongovernmental employee. The differe
is that in the case of private business, as a result of
activity for which the labor is used, something is produ
which can be sold and thereby provide further funds w
which the producer is enabled to continue to employ
workers. In government pump-priming expenditures
is not true. The government hands out the money and
no flow of receipts in return with which to perpetuate
ployment. In other words, business spending is a revolv
process which makes up a continuous economic activ
while government pump-priming is a single-shot operat

[1] *Statistical Abstract of the United States* 1940, p. 306.

ich does not create future income and has none of the aracteristics essential for self-perpetuation.

The opponents of the "prime-the-pump" doctrine 1932–1933, it is thus evident, had good ground for eir objections. This means nothing more, however, than it the prime-the-pump argument alone was wrong (see . 917–918). It still leaves the question whether spending the basis of some other line of reasoning might not be rrect. The next point to consider, then, is the doctrine ich quickly replaced the prime-the-pump argument. is, it will be recalled, was the "multiplier" theory, as veloped by Keynes and quickly taken over by American herents of the spending school. As stated earlier, it was s theory which was used to justify and perpetuate ending from 1934 through 1938.

e Argument against the Multiplier Theory

It should be stated at the outset that the theory of e multiplier is quite correct, *given the assumptions upon ich it is based*. This last phrase has been italicized beuse it is of crucial importance. Almost any theory can made "quite correct" if it is hedged about with enough efully chosen assumptions.

As to the "multiplier" theory: it was valid if the underlying assumptions were sound.

As indicated above, the Keynesian multiplier is based three main assumptions and a number of subsidiary ones. d it may be worth while here to repeat the main one. ese assumptions are: (1) When ultimate consumers e their new money into the market, their demand for ods will stimulate production and not merely cause rises the prices of goods already produced. (2) The theory the multiplier tries to trace the effect of an increase in investment, and it must therefore assume that if, for mple, government investment goes up, private investnt does not go down. (3) The theory of the multiplier umes that the so-called "marginal propensity to conne" remains constant while the increased investment producing its multiplier effect.

Of these three assumptions, the last two are perhaps more dubious. With respect to the second, Keynes nself has said:

Keynes himself pointed out uncertainties in one of his main assumptions, that increase in government investment will not be offset by decrease in private investment.

We have been dealing so far with a net increment of inv ment. If, therefore, we wish to apply the above without qualifica to the effect of (*e.g.*) increased public works, we have to assume there is no offset through decreased investment in other direction and also, of course, no associated change in the propensity of the c munity to consume. If, for example, a government employs 100, additional men on public works, and if the multiplier (as defi above) is 4, it is not safe to assume that aggregate employment increase by 400,000. For the new policy may have adverse reaction investment in other directions.

He points out (1) that "the method of financing policy, and the increased working cash required by increased employment and the associated rise of pri may have the effect of increasing the rate of interest a so retarding investment in other directions, unless monetary authority takes steps to the contrary; whilst, the same time, the increased cost of capital goods will duce their marginal efficiency to the private investor, a this will require an actual fall in the rate of interest offset it."[1] And (2) "with the confused psychology wh often prevails, the government programme may throu its effect on 'confidence' retard other investment unl measures are taken to offset it."[2]

With respect to the third assumption, moreov no one knows what the "marginal propensity to consum is at any moment of time, and much less what it would if income were higher or lower.[3]

The multiplier is a very unreliable instrument of policy.

In short, the multiplier is a very imperfect imp ment of policy: No one knows or can know what the m tiplier effect of a given amount of government spendi will be. It may be large; it may be zero; or, if it cause large decline in net investment by frightening priv capital, the effect may be *less than zero*. It may actua that is, cause the national income to go down!

Again, however, we must recognize, just as we in the case of the prime-the-pump argument, that t

[1] Keynes, *op. cit.*, p. 119.

[2] *Ibid.*, p. 120.

[3] It is further somewhat unrealistic to talk about a "marginal prope to consume" for the country as a whole. Only individuals have propensities to sume, and individual propensities will vary with income class and other circ stances. The *effective* propensity to consume will vary therefore depending who gets the money paid out when investment increases.

es not mean that spending cannot be justified. Rather, this conclusion means is that the multiplier theory, again st as in the case of the earlier prime-the-pump theory, early does not provide a sound justification for spending. e turn, therefore, to the next theory which was developed the proponents of public spending as a means of stimu-ing business activity.

he Argument against the Mature-economy Theory

This new theory which was devised to show why ending was necessary was, it will be recalled, that be-use our economy has become mature it no longer is pable of supporting full employment without direct pport by the government. In other words, according this line of thought, we have attained the stage of de-lopment and a distribution of income which makes in-itable oversaving and underinvestment.

Of all the lines of argument which have been ad-nced in support of spending, this mature-economy esis is by all odds the most difficult to analyze effectively. is is because it involves many ramifications upon which finitive factual knowledge is not, and cannot be made, ailable. However, by examining the three assumptions derlying the contention that we have reached economic turity, it is possible to arrive at a definitive general con-sion as to the accuracy of the theory.

As to the "mature-economy" thesis, also, the three underlying assumptions should be analyzed.

1. Our Rate of Population Growth

The first of these assumptions is that our rate of pulation growth is declining. Of course this is true. The ative rate of increase of our population through the cade of the thirties was less than that of the twenties. t it does not follow from this that the country has no ure. In many decades during the past 150 years there been a less rapid rate of growth of population than in preceding decade. Furthermore, the actual increase in pulation during the thirties was, if we exclude immigra-n, one of the largest of any 10-year period in our history.

The actual figures since 1790 by decades are shown in accompanying table. For 1821 to 1867 the figures

used by the Census for immigration represent alien passengers arriving; for 1868 to 1903, immigrants arriving for 1904 to 1906, aliens admitted; for 1907 to date, immigrant aliens admitted. 1821–1830 data are for the period Oct. 1, 1820, to Sept. 30, 1930; 1831–1840 for Oct. 1, 1830, to Dec. 31, 1840; 1841–1860, for calendar years 1861–1870, for Jan. 1, 1861, to June 30, 1870. All later figures are for fiscal years.

Year	Total population	Increase for decade		Increase minus immigration	
		Number	Percentage	Number	Percentage
1790	3,929,214				
1800	5,308,483	1,379,269	35.1		
1810	7,239,881	1,931,398	36.4		
1820	9,638,453	2,398,572	33.1		
1830	12,866,020	3,227,567	33.5	3,084,128	32.0
1840	17,069,453	4,203,433	32.7	3,604,308	28.0
1850	23,191,876	6,122,423	35.9	4,409,172	25.8
1860	31,443,321	8,251,445	35.6	5,653,231	24.4
1870	38,558,371	7,115,050	22.6	4,800,226	15.3
1880	50,155,783	11,597,412	30.1	8,785,221	22.8
1890	62,947,714	12,791,931	25.5	7,545,318	15.0
1900	75,994,575	13,046,861	20.7	9,359,297	14.9
1910	91,972,266	15,977,691	21.0	7,182,305	9.5
1920	105,710,620	13,738,354	14.9	8,002,543	8.7
1930	122,775,046	17,064,426	16.1	12,957,217	12.3
1940	131,669,275	8,894,229	7.2	8,365,798	6.8

The Brookings Institution (in *Capital Expansion, Employment, and Economic Stability,* by Harold G. Moulton *et al.,* 1940, pp. 167–168) has the following to say on the relation of population increase to production:

Statistics do not show that rate of population increase determines economic expansion.

. . . the rate of population increase declined almost continuous from 1850 to 1900—the low figure for 1870 reflecting the influen of the Civil War. There were slight variations in ensuing decades, b with the trend continuing downward. If the rate of population increa had been of controlling importance we should have had a sharp declining rate of increase in production as early as 1870, with a co tinuing downward trend to the present time. But indexes of aggrega production . . . do not show any declining trend during this peric A factor which does not show results until after it has been operati

or 60 years can hardly be regarded as of "dominating importance." Other factors must have been of greater significance.

If further evidence is needed to show that production can increase even though population be practically stationary, it is available in the history of France. In the 20-year period preceding 1913 the population of France increased only 4 per cent. In those two decades, however, the volume of production increased as much as 20 per cent.

The conception of population growth as a controlling factor in economic expansion involves an elementary fallacy. It is based on the assumption that the only impetus to economic growth is that which comes from increased numbers of people. The fact is that economic activity—the use of our labor power and our capital equipment—has always been directed to a double purpose: (1) the production of goods to care for the primary needs of increasing numbers of people; and (2) the production of increasing quantities of goods for already existing, as well as for the increasing population. Stating the matter in individual terms, we seek not only to produce enough to provide our children with necessities, but we hope to enable them, as well as ourselves, to achieve higher standards of living than were enjoyed by our forefathers.

The purpose of economic activity is not only to meet needs of increasing population but also to raise living standard of whatever the population may be.

2. Our Geographic Frontier

The second assumption underlying the contention that we have reached economic maturity has to do with our geographical frontier. This assumption rests upon a concept of the frontier which is both narrow and unrealistic. In broad terms we may have a geographical frontier in any one of three ways. It may be a frontier in the sense of "free land" which is available to anyone who moves in and takes possession. Or it may be a frontier in the sense that there is land available whose purchase price is below its value as indicated by potential productivity in periods of prosperity. Or, finally, it may be a frontier in the sense that the land, although occupied, is still capable of supporting a larger number of persons than are currently living on it.

In Japan and some of the European countries the frontier has disappeared in all these ways. In the United States this is not true. In terms of our potential agricultural productivity, we could support a substantially larger population than we now have in this country. Further, throughout most of the thirties, there were large tracts

A geographic frontier has not disappeared so long as there is enough land to support an increased population, available at prices well below fair value measured by productivity.

of land available at prices well below their fair value determined by potential productivity in periods of re sonable prosperity.

We have never lacked a frontier, and most of our "free land" required much labor to fit it for use and was never attractive to industrial workers.

In terms of the ability of the land to support increased population, or in terms of its purchase price relation to productivity, therefore, the contention th our frontier has disappeared is not in accord with t actual situation. In other words, the contention of the critics of the enterprise system is accurate only insofar it refers to the disappearance of free land. But that is n a new development. We have not had "free land" in th sense since the beginning of the century, and actually mo of it was never "free" because it took an immense amou of labor to bring it under production. Further, when v had such free land there was no appreciable movement it by industrial workers during periods of business depre sion. Rather, most of it was taken up in prosperous time

The whole argument that the disappearance of t frontier proves that the enterprise system by itself cou not recover from the depression of the thirties, therefor falls to the ground. It would apply equally well to the d pression of the early twenties, and almost as well to t extremely severe depression of the 1890s. Again the reco in England, which has had no free land for many gener tions, provides conclusive evidence that such an argume cannot stand examination.

3. Decline of Investment Opportunity

The third assumption, as to absence of a large new industry or of prospect of industrial expansion, is untenable unless public wants are fully satisfied.

The third of the assumptions underlying the premi that we have a mature economy is that there is no long sufficient opportunity for private investment to abso our savings, because there is no large new industry sight and it is inconceivable that existing industry cou expand enough to use these savings, thereby providing jo for all our workers. This is the most startling of any of t three assumptions. It amounts to saying that American i dustry has reached the stage of permanent stagnation, th the opportunity for investment is limited because t public has as much of the products of private industry it wants, and that, in consequence, from here on the on

way to use our surplus funds is through government pending for social purposes.

Such a line of thought is almost inconceivable to nyone familiar with the development of the American conomic system. Clearly, the American public has not ven begun to approach the point of satiety in its wants. This means that there is an almost endless amount of priate investment opportunities waiting to be undertaken. Think of the enormous possibility in the field of housing, n the relocation and development of plants as a result of he change in population trends. Think of the increased nvestment in manufacturing which will be necessary to neet the needs and desires of that portion of our population which today is inadequately supplied with commodiies and services, and of the increased investment that will ome with the development of scientific agriculture. Think f the new capital that will be involved in the development of electrical gadgets of one kind and another, of lastics, of transportation, and of further inventions for nproving the quality of our goods, and for increasing productive efficiency and thereby reducing prices.

The unsatisfied wants of the American people are almost endless;

It is true that none of us today can visualize with bsolute positiveness a new industry comparable in size the steel industry or the automobile industry. But this as always been the case. At no time has it been possible forecast with absolute positiveness that any particular ne of endeavor was going to become one of the halfozen great industries of the world. But always there have een those who had confidence in their ideas and disoveries, and always, under the Individual Enterprise System, there has been the opportunity for some of these to rove they were right. That has been an outstanding haracteristic of the American Individual Enterprise System. And there is no reason, if freedom of opportunity is naintained, why this should not continue in the future —no reason why we cannot be carried indefinitely ahead long the path of an ever-expanding volume of goods and ervices which more and more of our population can fford to buy. In fact there is every reason to believe xactly the opposite. Investment opportunity is in large neasure a function of discovery (invention, new resources,

nor could the rise of great new industries ever be surely forecast.

The wealthier, the more competitive the nation, the stronger the impulse to discovery, invention, and investment.

etc.). Discovery is in turn a cumulative function of leisu to pursue it. The wealthier a nation, the greater its leisu to pursue discovery. The more competitive a nation, tl greater the compulsion to discovery. Hence the wealth competitive nation can anticipate greater, rather than le discovery and investment.[1]

In summary, the technological frontier in mar respects is wider open today than at any earlier time our history. Its ability to absorb savings through capit investment is greater than ever before. And its possibiliti of providing jobs for an ever-increasing number of o workers is greater than in any previous period. Only tho who have lost faith in America, in the inventive genius its people, and in the strength of democracy can possib believe otherwise.

The Facts on Oversavings

It is argued in connection with the "mature-economy" theory, that with national income adequate to provide full employment savings will be higher than investment—the "oversavings" condition.

The term "oversavings," as used by the matur economy school, has meaning only in relation to some giv level of national income—usually the level which will pr vide so-called "full employment." The argument ru about as follows (the figures are merely illustrative): (1 In order to provide full employment we need a level national income in current prices of about 125 billi dollars. (2) But at this level of national income priva savings will be relatively high, say 20 billion per annu (3) Therefore, in order to maintain such a level of nation income, investment must be maintained at 20 billion p annum. (4) But private investment will be considerab less than 20 billion. (5) And government will have to ma up the difference between 20 billion and whatever su private investment amounts to.

The heart of the argument lies in the assertion th at a level of national income adequate to provide so-call "full employment," private savings will exceed private i vestment. Private savings will exceed private investme the argument runs, because at high levels of nation income our savings will be relatively high and our inves ment opportunities and hence our investments relative

[1] In George Terborgh's factual study, *The Bogey of Economic Maturity,* concludes that "historical and statistical evidence for the stagnationist theory wholly lacking."

ow. We should observe here that equality between private nvestment and private savings at a high level of national ncome can be achieved in either one or both of *two* ways: ither by lifting private investment or by cutting private avings or both.[1] This is illustrated by the accompanying able. In illustration I, if private saving is 30 billion dollars

	National income, billions of dollars	Private saving, billions of dollars	Private investment, billions of dollars	Government investment required, billions of dollars
I	125	30	20	10
II	125	30	30	0
III	125	20	20	0

nd private investment 20 billion, 10 billion of govern- nent investment will be necessary to maintain national ncome at a level of 125 billion. But the government in- estment will not be necessary if private investment should e 30 billion (as in illustration II) or if private savings hould be 20 billion (as in illustration III).

In the preceding section (pp. 944–946) the so-called mature-economy" theory has been criticized and found o be unduly pessimistic about future investment oppor- unities. In this section we deal with the other aspect of he problem. That is, what are the possibilities of achieving quality between private investment and private savings and thus making government investment unnecessary), y *raising consumption*—that is, by cutting down private avings?

But "over-savings" may be counteracted without government investment—by increased rate of consumption and by present available provisions for security.

For two main reasons, the prospects seem reasonably ood that people will spend more out of a given income han they did in the past. In the past people saved, in art at least, in order to obtain security; to provide for heir old age or for periods of unemployment, etc. But, ince 1935, this country has developed a comprehensive ystem of social and unemployment security. To the ex- ent that security of this sort is provided by the govern- nent, people will not be impelled to provide it for them-

[1] That there are *two* ways is often overlooked by Keynes' disciples, although ot by Keynes himself. His disciples have come to believe what Keynes merely sumed—that is, that consumption is uniquely determined by income and cannot hange unless income changes. They have therefore laid main (almost sole) nphasis on the investment part of the problem.

selves. And to some extent we can expect people to div to current consumption at least some of the funds whi would have been saved for these security purposes. addition, people have, during the war, accumulated a v reservoir of savings, and this also should make them l fearful of the future and more disposed to spend a lar part of their incomes for current purposes.

So the "mature-economy" theory under-estimates private investment and over-estimates private consumption.

In short, then, the mature-economy theory mal a double error: at any given level of national income, underestimates the probable amount of private investme and overestimates the probable amount of private savin

The further argument that public internal debt is no burden is unfounded, for the national income is not pooled and the debt cannot be distributed among individuals so as to equalize the taxes to service it with the interest they receive.

One final point in connection with the matu economy thesis: As stated earlier, the advocates of t doctrine take the position that both the increase and t absolute size of the public debt are unimportant so lo as the debt is held internally, since in this case the inter on the debt is merely paid to ourselves and hence d not constitute a burden upon the economic system a whole. Such an argument, it must be obvious, is complet fallacious. Consider the case of two men, each of wh has an income of $2,500 a year. Taken together they ha an income of $5,000. Now suppose that one of them g his salary doubled and the other loses his job and all income. In the aggregate their income remains the sar $5,000. But unless they pool their incomes a vast char has taken place—a change so vast that the one withc income, unless he gets outside aid, may starve to death.

So it is with the case of the nation—for in t country we deal with private incomes, not a pooled i come for the nation as a whole. What John Jones mal in wages belongs to John Jones, not to some central fu to be divided up equally, or as some administrator sees among all our people. Therefore, if John Jones is call upon to hand over a part of his wages in the form of i terest payments on the bonds held by Sam Smith it definitely a burden, just as truly a burden as though Jo Jones had to provide board and lodging for Sam Smith a got nothing in return.

But, it is argued, suppose we have such a distrib tion of the public debt that what John Jones has to p in taxes to service the public debt, he gets back as inter

on the bonds he holds. Doesn't that eliminate the burden? That depends upon many factors, none of which, however, need concern us, for as a practical matter such a situation is impossible for the nation as a whole. It would mean that every person, every endowment, every educational institution, and every business organization—in short, every payer of taxes—would have to be the holder of a specified amount of government bonds. And it would mean that if taxes went up every one of those scores of millions of taxpayers would have to add to his holdings a specified amount—the amount being the increase of the tax capitalized at the rate of interest paid by the government on its debt. Thus if a person's tax increased $50, and the rate of interest was 2½ per cent, he would have to invest another $2,000 in government bonds.

To suppose that such a system could be worked out n practice is fantastic. Add to this the fact that a large proportion of the debt-creating expenditures of government of necessity do not produce income—*e.g.*, war expenditures—and it becomes clear beyond any question that the idea that government debt does not constitute a burden is without any foundation whatever.

General Argument against the Spending Policy

The argument that our economic system has lost its elf-recuperative powers, because it has reached "maturity" and in consequence has "oversaving" is thus found to be ust as inadequate a justification for government spendng as the earlier prime-the-pump argument and the muliplier theory. But, as noted in connection with the earlier loctrines, this still does not necessarily mean that government spending is not wise public policy as a means for timulating business activity. We know that, at least under certain conditions and for a limited period, it is possible or government, by spending money and inflating the curency or bank deposits, to increase the volume of business ctivity. This was amply demonstrated during the war. As the government increased the tempo of its spending or military purposes, unemployment largely disappeared and production was carried to the highest level in ou history.

Yet if these bases of a policy of government spending to stimulate business activity are shown to be untenable, other objections must be cited, in view of war experience.

It is clear, therefore, that if those who oppose gov ernment spending are to carry conviction, they cannc limit their argument merely to showing that the particula lines of reasoning used by the proponents of spending hav been, or are, untenable. They must forget the argument that have been or may be used to justify a spending polic and show why the policy itself is wrong, regardless of th arguments that are brought forth in its defense. In othe words, the opponents of spending, if they are to be success ful in convincing the public that they are right, must b able to show that government spending as a means fo creating business activity and employment is undesirabl in and of itself. We turn next to that question—to th reasons why, in the opinion of the opponents of spendin such a policy is undesirable, no matter what particula theoretical argument is used to defend it.

1. *Spending Is Like a Virus*

The first point that may be made in opposition t having the government adopt a deficit spending prograr as a means of stimulating business activity is that suc spending is like a virus in our economic and politic system.

1. The political advantages of a deficit spending program make it a virus that cannot easily be checked.

Politicians ordinarily like to spend money and ha to impose taxes. This is because spending makes votes, least for a while, and taxation is likely to lose them. The is an enormous temptation, therefore, once the goveri ment starts a deficit spending program, to continue tl policy more or less indefinitely. Commitments are ma for projects and, once they are started, there is always tl powerful argument that they should be completed. O locality or district feels that it has not had its fair shai so there is the demand that this "injustice" be rectified l further spending. A member of Congress facing electi finds he is in danger of being defeated, so his party mer bers desire to help him by creating more employment making more "improvements" in his district. And so indefinitely. The result is that, once a deficit spending pr gram is started, there never comes a logical and compelli point when it must be stopped. All the arguments a

ndencies are on the other side. And this is true regardless what party is in power and regardless of the particular stification for starting the spending in the first place.

Spending Tends to Frighten Private Investors

A second argument against deficit spending is that, an economic system in which private enterprise is the minating factor, such spending, even in moderate nounts, is likely to frighten business and private instors. The result, therefore, may well be a contraction private spending more than sufficient to offset the exnsion caused by the government spending.

It may be granted that such contraction in private dustry is not inevitable. Whether it occurs will depend rgely upon the type and extent of the spending, and the litical atmosphere in which it is carried out. For exnple, government spending to build, say, the Panama anal, or to extend an obviously badly needed highway stem, might well be interpreted by the business comunity and individual investors as a perfectly legitimate itlay about which there was no cause for concern. In nsequence, such spending, even though it involved a eficit, probably would have no effect on private investent. On the other hand, an equal amount spent for what believed to be wasteful purposes, or in an irresponsible ay, or in an atmosphere of what appears to be political ostility to individual enterprise, may have exactly the everse effect and cause a withdrawal of private spendg and investment well in excess of the government kpenditure. We may get the same effect also if the govnment expenditure is regarded by business and private vestors as constituting a threat of government competion with individual enterprise, or as an entering wedge y government into the fields that heretofore have been garded primarily as the domain of individual enterprise.

2. Irresponsible and wasteful spending tends to frighten private investors.

As an instrument of public policy with which to ontrol business activity, therefore, government deficit bending is highly unreliable. It is always necessary to onsider the psychological factor, and since this does not nd itself to statistical measurement it is never possible

beforehand to be absolutely certain what the result of an given amount of spending will be. For government t adopt such a policy is thus much like a doctor's giving patient medicine which may act either as a sedative c as a stimulant.

3. *Government Spending Is Relatively Unproductive*

A third argument against government deficit spend ing is that a dollar of expenditure by government is like to result initially in a smaller amount of production tha will result from a dollar of private expenditure.

Here again this is not necessarily the result. Theo retically, government projects can be financed with th same care and prudence as found in private enterpris But in practice, as the records clearly show, this seldo works out. In private enterprise there is ordinarily a clo connection between those who are spending the money ar the source of the money. This creates a certain amount c caution and care in the spending of the money. Of cour this is not always true. In many cases in private enterpri there is an enormous amount of waste. But, in the pictu as a whole, managers of private enterprise are fairly cau tious in their spending. They are cautious because, if the company is to continue to exist in a competitive worl they have to be.

3. Government spending tends to be relatively unproductive and imprudent.

Government employees, in contrast, handle mon which does not represent their own savings or the savin of others whom they have succeeded in getting as the financial partners. Because of this and because there is a ways more money where the first came from, there is tendency to be more lavish in expenditures, to be less car ful of the pennies. Governmentally constructed plants a thus likely to be expensive plants and governmental managed production is likely to be high-cost productio The public, as a general rule, therefore, gets less productio in return for a dollar spent by government than from dollar spent by private enterprise, and the asset val created by the spending is likely to be less than t money spent, or liabilities incurred, in the creation the assets.

. *Deficit Spending Leads to Financial Difficulties*

Fourth, if deficit spending is engaged in persistently nd extensively, it is certain in due time to plunge the overnment into serious financial difficulties.

A government cannot continue indefinitely to run : a deficit without creating an inflationary trend which ı time undermines public confidence in its obligations. f this stage is reached, it means that the savings of the nrifty in the form of life-insurance policies, bank de-osits, etc., are endangered and perhaps wiped out. It means lso that the commercial banks of the country, because they ill have to take over increasing amounts of government onds to finance the deficit, sooner or later become depend-nt upon government and thereby lose that freedom of ction which is essential to the Individual Enterprise Sys-em.

4. Deficit spending impairs confidence in government obligations and threatens financial collapse.

How long deficit financing must be continued in rder to bring about these results, or what the deficits ust amount to in terms of money, are questions which o one can answer. The loss of confidence in the currency r in the obligations of government, like the loss of confi-ence in the soundness of a bank because of rumors as to s financial position, is a psychological phenomenon. The nly safe course for the government to pursue, therefore, to make certain that its financial policies are such hat there can be no possible ground for such loss of onfidence.

If the government does not pursue such confidence-ıspiring policies, it means that at any time a wave of fear ay sweep over the public which will create a financial risis and perhaps lead to a financial collapse. The mere alization that such an eventuality is possible, too, it ould be noted, is certain to have an adverse effect upon ıe willingness of private investors to risk their funds in ew enterprises. Under such conditions investors will tend keep their funds in the most liquid forms possible—in ısh, or in securities of large, highly regarded companies or which there is a ready market. Even though a spending olicy may never actually lead to a collapse, the fact that ıe program being followed makes such a collapse a possi-

bility hinders the orderly, sound development of t economic system.

5. Spending Must Ultimately Lead to Higher Taxes

A fifth argument against government deficit spen ing as a means of increasing the volume of busine activity, is that such spending, unless it is to end national bankruptcy, must ultimately lead to higher tax in order to carry the interest payments on the increas public debt.

5. The necessarily increased taxation leaves less funds for business operations, for purchase of goods, for investment;

also reduces incentive to job-creating investment, and increases number of dependents on public support.

Such increased taxes mean (1) that employers a investors in private industry will have less money th otherwise with which to buy privately produced cor modities and services or to make investments in old or ne plants, and also that business enterprises will have l funds than otherwise for working capital and pla expansion. (2) The increased taxes are almost certain fall most heavily upon those groups which, because their higher incomes, do most of the saving. There w thus be a smaller volume of funds available for inves ment. (3) Such increased taxes mean that there will less incentive for those who have surplus funds to inv such funds in private enterprise, and thereby crea employment, since with the higher taxes the income whi will remain to investors will be lower than otherwi (4) With less employment there will be a smaller propo tion of the public able to pay taxes, and conversely larger proportion to be supported by public funds.

6. Spending Discourages Private Saving

A sixth objection to government deficit spending one which is closely related to the point just made— that, when there is such spending, government alm inevitably will attempt to force the interest rate dov to artificially low levels. This tends, at least to some degr to lessen the incentive of individuals to save and thus pı vents needed capital formation. Furthermore, such low interest rates reduce the revenues of endowed institutic and hence undermine the financial position of universiti hospitals, research organizations, etc. Finally, such l

iterest rates tend to make the return on investments so ieager that it is impossible for the thrifty to accumulate ınds sufficient to provide the income needed to take care f their old age.

6. Deficit spending tends to reduce interest rates, reducing secu-ity obtained by thrift.

It may be argued, of course, that actually there is o necessity that deficit financing be accompanied by the orced reduction of interest rates to artificially low levels nd thus have these undesirable effects. Again, although iat is true theoretically, it is not to be expected in prac-ce. When the government has large deficits year after ear, it is almost certain to try to drive down the rate of iterest at which it can borrow. It does this, not only in rder to hold down the aggregate interest charge, but as vell because interest payments on government obligations or the most part go to banks and the more well-to-do iembers of the community, and so are open to political ttack. As a practical matter, therefore, it is safe to say iat a large deficit spending program by government will lways be accompanied, as long as the government can ontrol the money market, by low rates of interest.

. *Spending Does Not Create Enduring Prosperity*

Seventh, government deficit spending is ordinarily ss conducive to enduring prosperity than business activ-y resulting from private production.

7. Production for a competitive market by private enterprise must stand on its own feet, and gives greater assurance of enduring prosperity than less rigorously tested government enterprise.

Government deficit spending, granted the purpose merely to increase the volume of business activity and ot to destroy the system of individual enterprise, tends to : based upon decisions far removed from the market ace and from the driving power of competition. The overnment, in a deficit spending program, has as its prin-pal objective the getting of money into the hands of the ıblic and the creation of jobs. Its objective, unless it is tempting to replace private enterprise, is not the produc-on of something for which there is a demand and which ın be sold at a price sufficient to cover the costs of pro-ıction and still leave something over as interest on the pital investment. In other words, by the very nature of e case, a government deficit spending program is signed primarily as a stimulant, not as something which

can stand on its own feet and produce a profitable retur year after year and decade after decade.

Again, it may be argued that this is not necessaril true, and that is correct. We have had examples of goverr ment enterprises operated on sound principles and trul self-supporting. But they have been the exception, not th rule. Usually, governmentally operated enterprises run a deficit, and ordinarily this is true even though such enter prises are freed of many charges, notably taxes, which a imposed upon private organizations. Taking the record a whole, therefore, there is little room for doubting th production for the market by private enterprise und competitive conditions is a much greater assurance enduring prosperity than the spending of any equivaler amount of funds by government.

8. *War Spending No Argument for Peacetime Spendin*

Eighth, the fact that large government spendir during the war created full employment does not indica that a spending program during peacetime would ha the same result.

8. War conditions are not comparable with peace conditions in market for production and requirement of maximum efficiency.

During wartimes government provides a virtual unlimited market for the products of a major portion industry. Further, this market is assured at a price lev which makes costs of secondary importance, for in w the primary consideration is to get the needed materi more or less regardless of cost. Finally, when millions men are taken into the armed forces, this curtailment the labor supply, in combination with the necessity of ge ting military supplies and the willingness to pay almc any price for them, causes business to bid for labor a accept a degree of inefficiency which at other times wou be ruinous.

In peacetimes none of these conditions would pr vail even though the government adopted a large spendi program. In other words, in peacetimes, although as a resu of government spending there may be a large volume purchasing power in the hands of the public, business h to produce for "the market," not just for a single buy who cares little about costs. This means that every pr

ucer has to compete with every other producer, and hence ne efficiency of his production becomes a primary conderation. Instead of being able to bid higher and higher or more and more inefficient labor, therefore, there are efinite limits beyond which he cannot go in the way of ages, and if labor is not available at this price he cannot crease employment. In short, under peacetime condiions, government spending, instead of "forcing" full nployment in private industry, may well create condiions which make such full employment impossible.

Spending Leads to the Loss of Freedom

Finally, and in some respects the most important of l the arguments against government spending, a policy f continued deficits on the part of the government must ean ultimately the elimination of competition and the ss of that freedom of choice which is characteristic of a stem of democracy and individual enterprise.

This point recently was discussed at length in a series f notable articles by the London *Economist*, which forerly had looked with considerable favor on spending as means of assuring full employment. According to the *conomist:*[1]

9. A policy of continued deficits must lead to increasing government controls, regimentation of production and consumption, bureaucratic adjustment of taxation, and disappearance of individual freedom.

> The state's difficulties in entering competitive spheres naturally d it to concentrate its "public works" in fields that are not financially nunerative, such as public buildings, roads, bridges, and the like. ese things are necessary and desirable and they yield nonmonetary vidends; but if too much of the community's savings are invested in rms that yield no money return, there will be trouble. The indiduals who save do so in the expectation of monetary return on their vings. A man who has saved all his life cannot live on the magnifice of the local Town Hall or on the smooth directness of the nearest -pass. If the standard of material living is to maintain its steady rise, is essential that as much as possible of the community's savings ould be invested in forms that will yield a tangible and material vidend in the future—and that is what any state short of the totaliian has difficulty in doing. Totalitarianism is, indeed, the ultimate d of a "public works" policy, for if any departments of the comunity's economic life are to be kept independent of the state (whether not they are collectively owned) it is imperative that they should constantly reinforced by a stream of new capital investment.

[1] London *Economist*, Oct. 10, 1942, p. 439.

This view also finds expression among the spendi advocates of this country. Thus it is said that the cont would have to include Congressional delegation of t power of taxation to the group in charge of the spendi program. This, for example, is the view of Prof. Alv Hansen, who says:[1]

> Congress should set up a long-run fiscal program adequate cope with the defense and post-defense problems. Such a program c for a comprehensive, long-range plan. For one thing, Congress sho establish a Monetary and Fiscal Authority. Such an authority sho be assigned the responsibility of advising and recommending to Executive with respect to the implementation of a comprehensive program. The Executive, acting under the advice of the Monetary a Fiscal Authority, should be empowered to increase or curtail at appropriate time a special category of public improvement expen tures, designed to promote employment stability and expansion. should, moreover, be empowered, with the advice of the Monetary a Fiscal Authority, to determine the imposition and withdrawal of ta designed to check inflation or deflation and to change existing ra within the limits imposed by the comprehensive tax program. Congr might specify certain criteria which the Monetary and Fiscal Author would be required to take cognizance of in the determination of appropriate timing of such adjustments. The determination ought c tainly to be discretionary, but it is possible that the objective crit could be sufficiently definite so that limits could be imposed upon range within which discretion could be exercised. Upon such deter nation and proclamation by the Executive the respective provisions the comprehensive tax measure previously passed by Congress wo become effective.
>
> Admittedly, Congress may be reluctant to delegate power to Executive on so vital a matter as the timing of the application of rates and expenditures. But, if we are to make the economy worka under modern conditions, it will be necessary to engage in bold so engineering, and especially is this true with respect to the defense p gram and its aftermath.

Believers in democracy and individual enterprise unable, of course, to go along with any policy that wo lead to the sacrificing of such basic rights of the individ —rights guaranteed by the Constitution and the v foundation of our form of government. They are unw ing to turn over the welfare of our 140 million people the whims of a small clique of "planners" and politica

[1] Alvin H. Hansen, *Fiscal Policy nd Business Cycles,* 1941, pp. 447–

›pointed bureaucrats, for they know that it is not possible › have individual freedom and bureaucratic dictation nultaneously. They know that under such conditions all dividual freedom ultimately must disappear.

Reason for the Lack of Recovery in the Thirties

The failure of business recovery in the 1930s was a "politically induced stagnation."

The opponents of government spending also know ıat the regimentation to which government deficit spendg ultimately leads is unnecessary in order to have prosːrity jobs for all who want them. They are convinced, ːcause to them the facts make any other conclusion imposɔle, that the failure of business to recover in the thirties as not because individual enterprise had broken down, or ːcause our country had attained a position from which covery without government spending was impossible. hey know that the failure of the thirties was, as one stuːnt, Dr. Charles O. Hardy, phrased it, a "politically duced stagnation." In more detail, in Dr. Hardy's ords:[1]

> Historically, until recent years, government, though operating rough democratic machinery, was in fact dominated in its economic ɔects by the ideas of investors and entrepreneurs. The rising standard living of the nineteenth century was not the direct result of governːntal pressure in the direction of higher mass incomes; it was the direct result of the prosperity of business interests which were comlled by competition rather than by government action to share the uits of progress with the remainder of the population.
>
> In recent years, on the other hand, economic legislation has en the expression of a strengthened equalitarianism which seeks at e same time to push up the incomes of the masses by direct action d to cut down the incomes of the wealthy. For the first purpose the ief interest is labor policy; for the second purpose it is tax policy. ıe surtaxes on large incomes, even before the inception of the defense ogram, coupled with a failure to provide a system of averaging comes, destroyed most of the incentive for the wealthy to invest in y but the safest securities. Discriminatory taxation on corporations t heavily into another source of equity capital. At the same time, ıge and labor policies were exerting steady upward pressure on costs. short, in a period when we have had a deficiency of employment

[1] Charles O. Hardy, "Review of *Fiscal Policy and National Income*," *The* *nerican Economic Review*, March 1942, pp. 103–110.

offers and a superabundance of would-be employees, we have tried correct the balance by making the position of the employee mc attractive and that of the employer less attractive. We depend on t profit motive to call forth a supply of investment, risk-taking, a employment opportunities, but direct our national policy to minimi ing the share of profits in the national income. We depend on t minority of large incomes to provide the initiative and bear the ris incident to economic progress, but we strive to eliminate th inequalities.

My point merely is that a propensity of the capitalists to se safety rather than profit, to shirk the responsibilities of investment, a natural consequence of governmental policies which are inappropri to an economic order controlled chiefly by private initiative und the profit motive.

What the Facts Show

Comparison of recovery in the United States and foreign countries fortifies this conclusion.

That Dr. Hardy and those who agree with him a accurate in this interpretation of the failure to get pro perity in the thirties is scarcely open to question. This indicated by the actual record of recovery since 1930 the United States as contrasted with other countries. Su a comparison shows that the United States, France—whe much the same policies were being followed as in the Unit States—Canada, Belgium, and Czechoslovakia were t only countries of the 19 upon which the Internation Labor Office compiles statistics whose production by 19 was not above that of 1929. It is true, of course, that pr duction in the United States dropped to a lower relati point than in other countries, and hence we had mo ground to regain. But that does not change the fund mental picture. The basic fact is that the decade of t thirties was the first in our history when we did not rea a new high level of production.

Record of Investment during the Thirties

It is in the field of investment, however, that the re impact of the new order in the United States during t thirties showed its most direct results. The record of ne issues year by year is given in the accompanying chart. will be noticed that new private issues rose from 1,700 m lion dollars in 1921 to 8,000 million in 1929. New issues state and municipal governments throughout this peri

ere about 1,500 million dollars annually, and there were, course, no new issues of the federal government. Between 931 and 1941 new private issues in this country averged well below 1,000 million dollars a year. During is period the federal government dominated the capital arket.

The record of new issues for private investment provides further confirmation.

In a sense, these facts on borrowing alone tell the mplete story of the record of the thirties of the unbalnced budget and increasing interference with private itiative. They make it abundantly clear why the decade the thirties, as just stated, was the first 10-year period our history when production failed to make a new high cord—why in the decade of the thirties we did not get ll recovery and prosperity and jobs for all who wanted em. For without private investment and expanding proiction there cannot be increased private employment at isting wage rates. And without private employment ere cannot be either increasing or sustained prosperity.

Summary

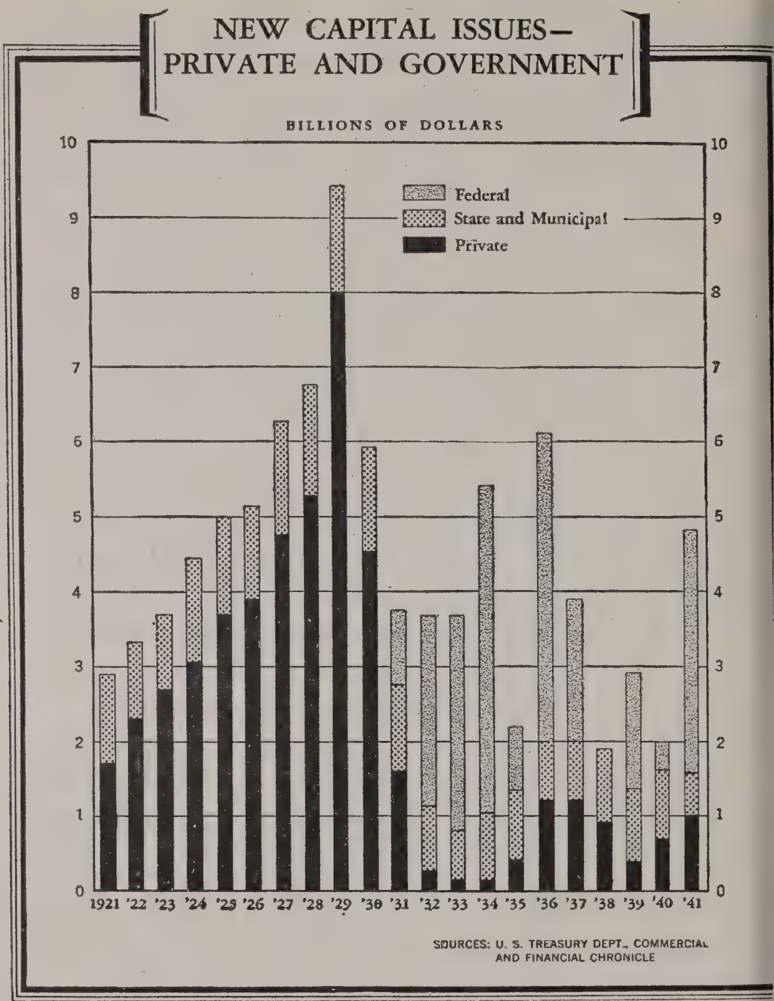
To summarize the argument of this chapter:

To summarize the general argument against government deficit spending, then, it may be said that even though is true that if the government spends a sufficient amount money it will result in an increasing volume of business, ch a policy is unwise because business activity which is sed upon such spending necessarily is temporary, and cause further:

1. Government deficit spending does not provide permanent jobs, while private productive investment results in continuing operations and so permanent jobs.

1. In order for the government to make such additinal expenditures, it is necessary to search out new projts which on the whole are nonproductive. This is because periods when government deficit spending is needed to crease employment there normally are adequate, and rhaps excess, facilities for meeting the current demand r production. When the government project is comted, expenditure stops, and the jobs involved in its osecution come to an end. In contrast, when we have oductive investment by private investors, such as the ablishment of a new factory, the completion of the ojects provides new jobs for its operation, and the operan in turn produces the market value to cover the con-

Chart I



tinuing wages. Such investment, therefore, if the proje
is successful, results in permanent jobs.

2. Government deficit spending creates competition with private enterprise, if not in goods, always in materials and labor.

2. Government deficit financing has a tendency
put the government into competition with industry,
matter how great the care exercised to confine such spen
ing to useful products. Such government competition w
industry is not limited to providing goods for the mark
In fact, this may not occur. But there is always compe
tion for materials and for labor. The effect of this is
maintain prices and wage rates, thus increasing beyo
normal levels the costs of private enterprise and there
hindering the growth of such business.

3. Deficit spending by government tends to be dis-
uraging to business, and especially to new investment, cause it necessarily contains within itself a threat of gher taxes at some later point. Such spending also creates ormous administrative agencies and bureaus, which once eated tend to be perpetuated. This further enhances the cessity of heavier taxes at a later date. The net result is at productive investment is restricted and fewer jobs are eated by private enterprise.

3. Deficit spending, indicating higher taxes for debt and operation, discourages private productive investment.

In a word, then, deficit spending by government nds to aggravate the very conditions it is intended to minate. Instead of providing a self-sustained volume of siness activity, it undermines business, and, when the ficit spending ceases, business activity promptly recedes. is means in practice that, once deficit spending is started, ere is a tremendous urge for those in power to continue spending and, as private investment shrinks more and ore, to take over the direction of an increasing proporn of our economic system. In the long run, therefore, ficit spending must be regarded as a direct threat, not ly to the system of individual enterprise itself, but to r political democracy as well.

In short, such a policy can provide only temporary relief, undermines business, and, feeding on itself, threatens democracy.

XIX

PROPOSALS FOR THE ABANDONMENT OF THE INDIVIDUAL ENTERPRISE SYSTEM

Depression breeds a variety of reform proposals.

PERIODS of economic depression and unemployment always are notable for the number of "reform" proposals which are publicized and, for a time, ouse the public's interest. That this should be true is not rprising. In periods of depression one lives face to face th the fact that something has gone wrong—that the onomic system no longer is running as it is supposed to, d that, in consequence, large numbers of people are ffering through no direct fault of their own. It is tural that under such circumstances socially minded rsons should try to devise means for correcting the isting situation and assuring that it never again develops. is only natural also that those who are being hurt by e depression should grasp at these proclaimed "solutions" d thereby give them a public support which it would be ite impossible for such suggestions to attain in periods prosperity.

And many great reforms have grown out of such periods.

That the public does react in this way during depres- ns, rather than merely assume that nothing can be ne to correct the causes of trouble, is fortunate. Many of r great reforms have grown out of periods of distress— t of conditions which became so unbearable that the blic decided something must be done to correct them. ere, however, it is not the purpose to discuss these forms.[1]

But in the name of "reform," proposals are advanced which would

Rather, it is the purpose to analyze various sug- stions made in recent years in the name of reform which, adopted, would lead to the destruction of the Individual terprise System. It is quite possible, of course, that in me instances the proponents of these ideas do not realize at this would be the ultimate effect of what they advo-

[1] Such reforms, both actual and proposed, are discussed in Chaps. II, XIV, II, and XVIII; also in the two final chapters, XX and XXI.

lead to destruction of our enterprise system.

cate. But that is beside the point. The important fact be considered is not what the various authors of th suggestions and plans think or hope would be acco plished, but what in actual practice would be the res of following such proposals.

I. Economic Planning

"Economic planning" has always been characteristic of our system.

The most innocuous-sounding of these destruct suggestions is that which goes under the general name "economic planning." We have, and always have had large amount of planning in our economic system. T individual businessman plans to the best of his abil for the future expansion of his plant, and he plans his p duction schedule as far in advance as he is able to s Likewise, government always plans ahead in the sense formulating long-term policies. But the term "econon planning," as it is used by those who in recent years ha offered this idea as a "reform" measure, means far m than the type of planning we have had in the past. have had individual planning, with each individual business organization arriving at an independent decis and then reaping the benefits or suffering the losses acco ing to whether the decision proved correct. Advocates economic planning, in contrast, propose that in place this individual planning, we shall have over-all plann for the economic system as a whole. In other words, th propose that government, rather than individuals, sho make the decisions as to plant expansion, product schedules, employment, and prices.

The term is now used, however, to mean over-all planning for the economic system, so that government rather than individuals would make decisions as to production, employment, and prices.

Reason for the Appeal of Economic Planning

Advocates of over-all planning see waste of man power and capital, fluctuations in production and employment, and maldistribution of effort.

The idea of having government assume this over responsibility for planning has an appeal to many peo The reasons for this are not difficult to understand. (who is unfamiliar with the functioning of our econo system and its interrelationships is quite likely to impressed by what appears to be an extraordinary wast both man power and capital. He sees plants that oper at less than capacity, not only during periods of dep sion, but in relatively prosperous times as well. He sees some places in the economic system, great shortages

plies, and at other places great "surpluses." He sees lustry driving ahead at a terrific rate and gradually pil- up inventories—inventories which, with a downturn business, will immediately become a burden and will ise men to be thrown out of jobs in large numbers. d he sees an immense amount of work to be done at the y time when men are walking the streets looking for s.

To those who are not familiar with economic proc- s and the functioning of the individual enterprise sys- these examples of waste and human suffering may l appear as needless—as imperfections in our economic anization which with wise and proper direction could ly be corrected. It appears to them also that individual inessmen, operating singly, cannot themselves make se corrections. As they see the problem, businessmen do have the necessary information and, even if the infor- tion could be made available to them, they still could solve the problem because the individual businessman s not and cannot have the proper perspective for mak- the needed decisions. That is, in the judgment of these ics, individual businessmen of necessity take the over- situation for granted and, on the basis of this, make isions which will be of most benefit to their own anizations, whereas what is needed are decisions by se whose primary interest and concern are with the r-all picture. This necessitates, according to this group, economic planning board. Granting such a board, they intain, it would be possible to have a system of pro- ction in which all capital is used to the utmost, in which duction is limited to those things which are needed and the volume that can be purchased, and in which the nand for labor is not subjected to the ups and downs of hanging volume of business activity.

They believe these apparent imperfections in our system could be removed only by an economic planning board.

Some of those who paint a picture of this kind, it is to say, do so for political motives. But not all of those follow this line of argument are consciously enemies the Individual Enterprise System. The waste and lost rgy which they point out are, in many instances, only true. But this is only a part—the bad part—of the y. What these persons overlook is that it is through ls and errors that we progress—that there is no smooth,

These critics overlook the fact of progress through trial and error in a complex and dynamic economy.

And rigidity through centralized control would make their remedy worse than the disease.

clear highroad by which business success can always reached. In other words, by their insistence that if we a master plan all waste and all errors could be elimina these critics reveal a complete lack of comprehension the difficulty of running a business. Further, they wrong in assuming that it is either possible or desirabl use all our productive equipment all of the time. Such utilization of capital and labor resources can take p only in a completely rigid economy. In the long r through changes in tastes and needs such "full use" of productive equipment would create far greater waste t we have ever had in the past. In a word, then, although "planners" are correct in sensing a problem, they fai see that the remedy which they propose is worse than disease. They fail to see that economic planning, in sense in which they visualize it, can take place o through a complete centralization of control over entire economy and would create the very system government against which we went to war.

Economic Planning Would Mean the Loss of Indivi Freedom

Centralized control of production would extend to investment and wages, to prices, and inevitably to consumption.

Economic planning, in other words, means the ting up by government of an elaborate system of bo and administrative agencies which would direct all economic activities in detail. Producers would have t told how much and under what conditions they wer produce. They would have to be told how much ca they were to invest, in this or that plant, or in this or operation. Labor would have to be told when and w to work and at what wage. And with this control of duction and wages there would have to be control o prices, for only by doing this could the rigidities in duced into the economic system be kept from creating bearable disequilibriums and endangering the progra a whole. Consumers would be told, at least indirectly, in practice they almost certainly would be told dire how much and what they could consume, and at w price.

Under economic planning, then, all of us w become mere puppets of a centralized bureaucracy

bject to its orders in almost every move that we made. rther, there is of course no basis whatever for assuming it the general level of intelligence and ability of the rsonnel of such a bureaucracy would be superior in any y to the management now found in American industry. fact, both the record and logic indicate that the reverse more likely to be true. Whereas under a system of indi- lual enterprise the errors tend to be compensatory and rrected as we go along, under economic planning the ors are inevitably cumulative, for there is no means which corrections can be enforced when errors are de. And we have ample evidence, *e.g.*, the sharp decline 1937, to know that government errors can throw the nomy into a tailspin just as quickly and just as violently errors by businessmen.

A centralized bureaucracy is no more likely, but less likely, to have efficiency equal to that of the current management of industry; and errors, instead of being compensated and corrected currently, would be cumulative.

But even this is not all. For economic planning to effective and to have even a chance of realizing the ults anticipated by its advocates, it would have to end over a considerable period of time. Developing a oduct from the first idea to the perfected unit, raising capital to build a plant and then building the plant, cumulating the specialized machinery necessary for pro- ction, and, finally, offering the product on the market this process ordinarily is not a matter of a few weeks or nths but extends over several years. Those who are ponsible for economic planning, therefore, if their anning" is to have a chance of success, must be able to ry through their undertaking to completion. And since lan for the economic system as a whole is not something ich may properly be conceived of as starting at one nt of time and finishing at another, but rather must thought of as a complicated maze of interrelated elopments which mesh together in a continuous process, nomic planning can have neither beginning nor end.

Moreover, the central planners would require time to carry their plans to completion, and so a continuous tenure of office.

This means that those in control must not have to k to a tenure of office of only a stipulated term of rs. They must think of themselves as a continuous anization remaining in power indefinitely. In other rds, economic planning, if it is to have even a pos- ility of being effective, must not be faced with the risk an overthrow through free elections. Rather, it must

This means dictatorship.

have the indefinite tenure of office that can be obtai only by a dictatorship operating through some form fascism, socialism, collectivism, or centralized burea racy, all of which are merely different kinds of statism.

Economic Planning Would Destroy Initiative

Under our system individual ventures are encouraged, and those which succeed contribute to our economic progress.

One further point needs to be mentioned in co nection with the argument for economic planning. T is the effect that such a scheme necessarily would ha upon private initiative. Under our system of individ enterprise we enjoy the benefits of having had scores thousands of people every year willing to take a chan with their money and their energy in the hope of impro ing their own position through offering on the mar either a new product or an old product at better ter Many of these persons necessarily prove to be wrong their judgment and in consequence lose their investm and their time. But countless thousands of others over years accomplish their aims and move ahead to be successful producers of our nation, giving employment labor and a constant widening variety of products our consumption.

With centralized planning, individual initiative would be discouraged and the compulsions of competition would be lost.

Under economic planning practically all of this va would be lost. Government bureaus would have to prov the initiative. And, since each bureau would have a mon oly in its designated area of production and managem it would be under no compulsion to improve, expand, vest, or invent. More likely, the initiative would be dee a disturbing trait and something to be eliminated. T does not mean that there might not be some new inventi and the development of some new industrial proce But the amount of such advances would be a mere d in the bucket in relation to what we have had in the p

The end result would be a slowing of progress.

The net effect of economic planning, theref would be to retard materially our economic progress would remove the possibility of testing results against c which constantly takes place under a system of indivi enterprise. The final result would be, therefore, that should tend to lose our relative productive superiority c the rest of the world. Of course, through the redistri

n of the products of our existing facilities and our sting technological accomplishments, some people for moment might fare a little better. But this would not er the prospect that in the long run our nation as a ole would gradually lose ground in comparison with at we could do under the enterprise system. Nor would lter the prospect that those of our people who up to the sent have been relatively poorly supplied with goods l services would have to look forward to a future in ich there was less chance of an appreciable betterment their position.

The objection to over-all economic planning, then, is that there is nothing in our economic system which erves correction. No one favors the wasting of capital, rgy, and natural resources. But economic planning is the cure for this waste. On the contrary, as stated lier, it is almost certain to be even more wasteful. rther, since, as stated above, under economic planning should lose our political freedom, it would be impossible eliminate the waste and those responsible for it. Under ystem of individual enterprise such waste is in the open l it is possible to do much toward correcting it. Under ividual enterprise we make errors, but through com-ition they are corrected and we gain on balance; under nomic planning, with the force of law back of all isions, we can be sure of no such fortunate result.

Over-all economic planning offers no cure, but would impede the reduction, of economic waste.

II. "Creeping Socialism"

A second proposal, or, more accurately, group of posals, which in their ultimate effect would destroy the ividual enterprise system, is what perhaps may best be ed "creeping socialism."[1] Most notable of the argu-

Various other proposals may be classified

[1] An almost endless number of items properly fall under such a heading. y of them have become political catchwords of the day, for example: "Gov-ent must be a partner in business"; "Public ownership of natural resources"; e issue of credit"; "Limitation of the right of inheritance"; "Profit sharing"; Other proposals which as yet have not attained such wide currency but are of ame character are "So long as anyone has a surplus, no one should suffer want"; more one person has, the less someone else must have." In the present discus-no attempt is made to analyze these ideas individually but merely to examine of the broad arguments used in support of the general thesis of "creeping ism."

under the head of "creeping socialism."

ments used to support experiments in this direction these contentions: (1) that the government has no ch but to take over basic economic functions if indivic enterprise cannot provide the people with a decent s of living; and (2) that business stands for the ma tenance of prices and for the restriction of output, with result that the government is forced to step in with "ya sticks" and at times even operate its own plants in o to enforce proper pricing policies and to assure an adequ supply of goods coming on the market.

Most of such proposals represent, not a desire to correct defects in our economic system, but a purpose to do away with it.

All such arguments, it must be obvious, smack of desire on the part of their proponents for some kinc statism. They are not, by any stretch of the imaginat merely attempts to correct defects in our economic tem, either real or imaginary. The sponsors of these pl therefore, cannot be regarded as defenders of our Indi ual Enterprise System or as persons who, though mis derstanding the implications of their proposals, are ne theless interested in perpetuating our traditional forn organization. Rather, the backers of these plans have confidence in the system of individual enterprise. They its open enemies. Their arguments are the argument socialism, not the arguments of individual enterprise. T solution is government ownership, not private owner —not even private ownership with governmental reg tion.

Ventures in this direction may not by themselves be ruinous to our system, but are steps toward a socialized economy.

This does not mean that in case the governr builds a factory for the production of aluminum or s or because it puts up a power plant, our individual er prise system is ruined. But it does mean that such ex ments retard private investment and start a chai developments to which there is one logical end. It m that in this particular part of our economic organiz we cease to rely upon the principles of individual er prise. It means that, to the extent that these governn ventures are effective, we eliminate competition as the trolling factor and put in its place bureaucratic con while the government is called upon to make up deficits that result from errors of judgment. These trols call for other controls in related fields, with pro sive reduction of the area of competitive enterprise.

he Error in the Argument for "Creeping Socialism" :periments

The arguments used to support such creeping social-
n are fallacious. The charge that private business is willing to supply the market is nonsensical on the face it. Individual enterprise will produce anything for ich there is a market at a price which will pay the cost production and enable the concern to remain in busi-ss. That is the very lifeblood of the enterprise system. individual enterprise fails to meet a market demand for mmercial products or services, it is not because it is willing to produce the goods, but because government gulation, unbearable taxation, or bureaucratic inter-rence makes it impossible for the Individual Enterprise stem to function.

Private enterprise is eager to meet the needs of the people; this is its lifeblood.

The remedy in these instances, therefore, is less, not ore, government intervention. This is true in every field at one cares to examine. At no place is it more evident an what is known as the slum-clearance projects in our ies. Individual enterprise can provide houses at costs t as low or lower than government. But it is prevented om doing this if the level of taxation is so high that these ies absorb a major portion of the rental income from property and there is no incentive for investors to risk ir capital in these ventures. Give the enterprise system narket, keep it free from the deadening influence of or monopolies, unnecessary bureaucratic interference l regulation, and oppressive taxes, and permit investors have a chance of getting a return on their capital invest-nt, then it can and will produce houses and goods more ciently and at a lower cost than any other system devised man. The only time the Individual Enterprise System s to produce is when those conditions are not fulfilled.

It meets these needs best with a minimum of government intervention.

The other argument mentioned above in support of eeping socialism" is equally untenable. Business does not nd for the maintenance of prices and restriction of out-. What it stands for is exactly the reverse. The historical ord of business as a whole shows this to be true. A busi-s firm thrives by being able to offer its commodities a lower price than its competitor, and thereby selling

Nor does business stand for maintenance of

prices and restriction of output; but for free competition, which has the reverse effect.

increased quantities. Only governmentally permitted m nopolies are able to maintain prices and restrict outp Prevent monopolies and there will be no maintenance prices and restriction of output. The reason is that w competition there is constant compulsion toward increa productive efficiency and hence toward increased out and lowered prices.

III. "Production for Use"

The slogan of "production for use" instead of "production for profit" is manifestly absurd, for profitable production must be for use.

The last of the proposals which needs to be m tioned involving the abandonment of the Individual En prise System is the idea that we should have "product for use" instead of "production for profit." This is amazing doctrine, for it reveals a profound confusion basic economic processes. All production is production use, otherwise no one would devote his time and ene and resources to it. The only question is who, or wha to be the determining factor in guiding the production

Two factors may mainly determine production.

In general we may say there are two such poss determining factors. First is the opinion of the "users" the goods or services produced. These opinions are refle —and in fact can only be reflected effectively—by prices in the market place. As these prices move up or d in relation to costs of production, the volume of p duction increases or decreases more or less correspo ingly. That is, as prices advance in relation to c producers will turn out more goods for the mar and vice versa. That is what is characterized as "p duction for profit." But fundamentally, it must b obvious, it is nothing of the kind. It is production for and the only thing profits have to do with it is that demand for the goods, or the intensity of the us reflected through the prices of the market place and demand, because of its effects on profits, is a m determining factor in how much will be produced.

One factor is the opinion of the users, which is reflected in the market.

Profit merely reflects the demand of users.

An alternative determining factor is the edict of a

The alternative to this system of market place de mination of production, or the second possible deter ing factor, is to have some government agency control much shall be produced. That is, the judgment of a g of bureaucrats is substituted for the desires of the pu

f the bureaucrats decide that we ought to have more uns and less butter, so be it. The public has nothing to ıy in the matter, for there is no way by which they can ıake their opinions effective.

government agency, substituted for the choices of the public.

'he Contrast Is Really between Popular and Bureaucratic)etermination

What is really meant, then, by those who voice this slogan is production according to bureaucratic decisions rather than according to public choices in a free market.

In a word, then, the contrast which these advocates f "reform" desire to make is not between production for se and production for profit, but between production to ıeet the desires of the public as reflected in free markets ıd production to meet the decisions of a group of bureau-ats as to what the public should have. It is the difference etween a system in which an individual is free to make s own choices and a system in which his freedom is crificed to the whim of a government agency. Still more untly, it is the difference between democracy and dicta-rship; for the only way by which a government agency ın make its decisions effective, at least in times of peace, to destroy the right of the public to overthrow these ecisions at the ballot box.

The direction of production by bureaucratic decisions would destroy the right of property, the ordinary process of investment, and the freedom of choice which has been the mainspring of our progress.

"Production for use," in other words, is nothing more or less than an open road to complete regimentation. When ırried to its logical conclusion, it denies the right of any ıe to use property to his own advantage. Rather, he must e it only as the bureaucrats decide is best for the "State." his means that the ordinary process of investment, as we ıve known it in the past, would cease to exist. One could longer risk his capital because he thought there was a ıance for him to make a profit. He would have to invest, at all, according to the "directives" of the government ency. The chances are, therefore, that he would not vest at all. The net result, therefore, almost certainly ould be a declining volume of employment, a contracting pply of commodities for public consumption, and a com-ete destruction of the very qualities which have led our untry to economic, political, and cultural greatness. In word, production for use, as meant by its proponents, statism in full flower, a perfect example of which was rovided in Germany under the leadership of Adolf litler.

XX

A PROGRAM FOR AMERICA'S FUTURE

IT is the purpose of the following pages to outline a positive program for the Individual Enterprise System which will result in:

1. An upward trend in the volume of production, and the highest possible scale of living, both quantitative and qualitative
2. A stable, but not rigid, general price level, including both goods and services (This would allow orderly readjustments in the relative prices of either services or individual products or groups of products as productive or distributive efficiency increases, or decreases, or as consumers' preferences change.)
3. Opportunities for a high level of private productive employment of labor and capital; that is, the highest feasible level of production and consumption
4. Conditions favorable to the development of new industries, technical improvements, and optimum efficiency of operation
5. Conditions favorable to a balanced development of the economic interest of the country as a whole, through private initiative (This means among other things avoidance of excessive speculation in commodities, real estate, or securities. And it means, further, that no policy shall be adopted which favors one group of the population or one section of the country at the expense of the general welfare of another group or section.)
6. Active competition; freedom of contract; the right to acquire and use private property, to establish and expand enterprise, and earn and use profits; and freedom to seek and accept the best job available and earn as much as possible
7. Progressive accumulation of capital for investment

A positive program is outlined for increasing production, raising the scale of living, securing a balanced economy, and maintaining economic freedom.

It is based on the foundations of representative limited government and individual enterprise.

In the presentation of the program it is assum that we shall have a world in which our principal effor are not devoted to military purposes. The foundations the program are the continuance of a representative go ernment of limited powers and the continuance of economic system of individual enterprise. The program outlined in the following pages for the various fields built upon these foundations. It is offered with the co viction that, if the indicated steps are taken, the progra will tend to assure the highest attainable degree of securi for the various individuals in the nation.

The program covers the following topics:

NOTE: Foreign policy and international cooperation are not covered in t report. The suggestions made under the above-listed heads must be read with this mind, and with full realization of the great importance of the subject of foreign tra including such matters as international currency organizations and agreements, tr restrictions of various kinds, capital movements, international lending, cartels, commodity agreements.

All these phases of our economic system invol serious problems. In no instance is the problem one th may be ignored with safety. However, in our opinion, these problems are successfully met, we shall have the on economic system which will be of immeasurable bene to the American public in a material sense and as well w assure our continuance as a nation of free men.

The broad economic aim of the program is to maintain optimum employment and full use of capital resources, by in-

As already stated, the broad economic aim of t program is to obtain and maintain a condition of optimu employment and full utilization of our capital resourc To do this it is necessary that as population grows t supply of new productive opportunities be increased. the long run one major requirement for increasing t total number of private productive jobs is through t investment of savings in new or expanding product enterprise. The program outlined in the following secti

designed to accomplish this purpose. If it is followed, it vill perpetuate our system of individual enterprise and hereby assure a continuance of that civil, political, and eligious freedom and economic productivity which has nade our nation great and which is essential if we are to ttain the maximum degree of security both as individuals nd as a nation.

creasing productive opportunities and so productive jobs.

Production, Prices, and Employment

Prerequisites to providing for the people means of healthful living and satisfaction of wants are ample productive facilities, competent management, efficient labor, and the "know-how."

A primary aim of the American economy is produc-on of a continually increasing amount of goods and ervices that people want enough to offer equivalent goods nd services in exchange. The intent is to provide, year in nd year out, the means necessary for healthful living and ne satisfaction of individual wants that do not interfere ith similar satisfaction for other individuals. A necessary art of such a long-range program is the accumulation of continually increasing and more efficient supply of the eans of production, such as machinery, equipment, dustrial and commercial buildings, and working stocks f materials. Additional prerequisites of such a program e experienced and efficient managers, experts of various rts, an industrious and cooperative working force, and body of knowledge of principles and procedures. The ccess of this country in the war production program idenced that these prerequisites have been realized to a rge extent, but many of those who have the most inti-ate familiarity with the present workings of the pro-uctive process believe that great improvements are still racticable.

We have the prerequisites in large measure but need to improve equipment, skills, and understanding, while removing obstacles to

A major item of the program for the future is, erefore, to secure greater and more efficient production means of better equipment, more skillful workers of l ranks, and broader knowledge. The detailed program r reaching this goal includes the detection and removal f obstacles which interfere with the smooth functioning f the system, through more accurate and more general nderstanding of the system, and by means of various ems enumerated hereafter in this program. It is believed at better understanding will prove an important aid to

smooth functioning of the system.

better results as it affects the decisions of individual bu nessmen and individual workers and citizens. There is a a possibility that the organized agencies of business mig render assistance by frank criticism of cases where gover ment or business has not measured up to the high standards of adherence to sound principles.

The free market is a mechanism for the continuous adjustment of producers' effort to consumers' wants.

A primary feature of the American system of pr duction is the provision, through the mechanism of t free market, for the continuous exercise of choice by bo buyer and seller. Through free markets, the prices dete mined therein, and the resulting profits and losses, adju ment is made between the changing preferences of t public for various goods and services and the time, effo and resources required to produce them.

Hence, a basic task in carrying out the program clarification of the general understanding of the way t free market should work and the removal of barriers a obstacles which interfere with it.

In regard to prices, the program suggests more careful and more uniform computation of costs; price reductions as cost reductions permit; and avoidance of erratic price fluctuations according to temporary market conditions.

On the matter of prices the program calls for more general acceptance of the following procedures a patterns of thought:

1. It is generally accepted as sound that costs sh be determined with considerable care, and in accordan with as nearly uniform principles as are appropriate und the variety of conditions encountered in different indu tries. The costs so determined are one of the fact considered, often by both buyer and seller, in establishi prices, though the method and degree of consideration highly varied.

2. As previously mentioned, it is considered des able policy to reduce prices as permitted by reductions costs without impairment of reasonable average pro over a period of time. It also is desirable policy for individual company to study the possibility that increa production and sales may result in greater total profits a that this may prove beneficial both for the particular co pany and for the society in which it lives. The point view for industry as a whole and for individual compar should be that in the long run growing volume and mo erate profits per unit are preferable to limited demand a high price level.

3. Reasonable price stability for fabricated goods is onsidered better for all concerned than erratic fluctuaons resulting from undue attention to unusual market tuations. Such stability may mean that, for short periods, me producers may have at certain times varying profits, d at times even losses, but such deviations average out the long run.

Employment of the available working force at rates pay as satisfactory to the workers as is practicable is an tractive goal, but is best approached as, in the main, a sult of a well-ordered economy, with production mainined on a large and increasing scale and prices freely etermined by market forces. It is desirable, however, from e point of view of stabilization of buying power of the mmunity, to take certain steps to make volume of nployment somewhat less variable than volume of proiction. Business concerns may mitigate the cyclical ictuations of employment by taking care of the peaks demand by use of overtime and by saving some repair d plant betterment projects for slack periods. Even hen business has done its best to smooth out fluctuations, me frictional unemployment must be regarded as inevible and should be dealt with as recommended hereafter the section on Welfare Spending by Government.

Employment of available workers at satisfactory pay is best approached through increasing production and leaving prices to the market.

But variations in employment may be reduced by employers' policies.

Government Finance

For the most effective stabilization of production d employment at high levels and for maintaining stality in prices, it is important that there be harmonious licies in money, banking, and taxation. Taxes which scourage saving, or more particularly investment in new expanding productive enterprise, prevent economic ogress and the attainment and maintenance of a high vel of employment at advancing wage scales. If we are have a continually prosperous economy, a basic prinple with respect to taxation is that the tax system ovide a minimum of discouragement to investment in oductive enterprise. If taxation seriously discourages and events such investment, a powerful force making for ronic unemployment will be established. The power to

Government policies as to money, banking, and taxation should not discourage investment in productive enterprises.

tax is the power to destroy, and there is no reason t believe that it cannot be employed to destroy the enter prise system by preventing the establishment of new c the expansion of existing enterprises.

Nonessential governmental expenditures should be cut out, and the budget balanced at levels favorable to a healthy economy.

It is in harmony with these principles to sugge the following:

1. Nonessential governmental expenditures shoul be eliminated and rigid economy practiced in all expendi tures; the budget should be balanced at those levels whic permit a healthy economy and, as a general policy, kep in balance; total federal expenditures should be kept i reasonable relation to national income derived from non governmental sources; and the public debt should b reduced in periods of prosperity.

The normal personal tax, at a flat rate, should provide the bulk of federal income-tax revenue.

2. The individual income tax should remain a majo element in the federal tax system.

3. The normal tax should be at a flat rate, shoul apply to all net personal income received by the individua with an exemption sufficient to cover a modest scale o living, and, insofar as possible, should be currently collecte at the source, and should provide the bulk of the tot federal revenue from the income tax.

Tax rates should be adjusted according to business conditions.

4. When production and employment are at hig levels and prices are rising, it is sound policy that t expansion of the volume of money and credit be slow down or checked, that tax rates be advanced, and that t increased revenue be used for retiring of the public deb And vice versa, when production and employment a declining, the opposite policies should be pursued, with the limits of a balanced budget.

Surtax rates should not be repressive of individual enterprise.

5. Surtax rates should be progressive, without ra ing the total tax rate—normal and surtax combined— high as to discourage individual endeavor and the accum lation of investment capital. Exemptions from incon subject to the surtax rate should be sufficient to cove modest scale of living for the family.

Capital gains and losses should not be included in the tax system.

6. Capital gains should not be taxed, and capi losses should not be allowed as deductions. Attempts tax capital gains discourage sound productive investme tend to freeze investments, destroy the liquidity of m kets, and, where property is held over long periods, invo

reat administrative difficulties. Further, many supposed apital gains that merely reflect changes in the price level re spurious. It would be desirable, therefore, to remove this ype of taxation from our revenue system.

Excise taxes and "indirect" taxes should be used sparingly.

7. Excise taxes and all so-called "indirect" taxes hould be retained to the extent that such levies may be ecessary to provide a fairly stable revenue base for the x system as a whole, such as may be obtained by taxes on ich things as tobacco, gasoline, and alcohol.

A general federal sales tax is desirable.

8. Assuming that a general "welfare spending" program, such as is proposed in a subsequent section, should be dopted, it should be financed solely by a general federal les tax payable upon the final sale of all goods, with the roceeds of the tax assigned to this particular purpose.

The tariff should be lowered gradually.

9. The tariff should generally be lowered, as indiated in the later section on that subject, with a view to sing it mainly for revenue purposes.

Corporation income should be taxed at normal rate only, and dividends exempted from individuals' normal tax.

10. Taxes on corporation incomes should be limited a rate equal to the normal tax rate on individual income, nd all dividends received by individuals be exempted from he normal income tax.

Corporations are instrumentalities for the producon of goods and the creation of wealth. Discriminatory axes upon corporate income deter investment. Also they re directly contrary to the principle of ability to pay, ecause they impose the same rate on stockholders regardss of their respective total incomes. Further, all such levies present double taxation, for the earnings of business are he earnings of individuals and as such are subject to tax. hese levies have been imposed because they have offered n easy means of raising a large volume of revenue with a inimum of political repercussions. That is not a sound asis of taxation. As a result of these taxes, individual nterprise has been needlessly handicapped, and we have ad a smaller number of new businesses and a smaller mount of employment than we should have had otherise.

Inheritance and estate taxes should be left to the states.

11. The field of inheritance and estate taxes should e left to the states.

Actual rates of taxation, local, state, and federal, nust necessarily be fixed by the government involved on

Actual rates must depend on revenue needed, but should be considered with reference to effect on the economy.

the basis of the money which must be raised by taxatio In doing so, each governmental unit should consider th effect of both the rates and structure of taxation upon th economy. It may be said, however, that thrift is discou aged and jobs are curtailed whenever total actual effective direct taxes paid by individuals are so high th either ability or incentive to save and invest is reduced eliminated.

Tax programs should not be designed to redistribute wealth or income arising from free competition.

Any direct tax to some extent discourages inves ment, and such effects mount rapidly as the number ar rates of taxes are increased. The various federal taxes shou be coordinated with respect to their impact upon ta payers. Taxation always modifies that distribution wealth and income which tends to result from free con petition, but this should never be the prime purpose its imposition.

Money, Banking, and Credit

The proper purpose of our money and credit system is to promote our economic and social objectives.

In the modern state it is plainly desirable to establi and maintain a monetary and credit system which w foster, not hinder, such measure of accomplishment economic and social objectives as will promote the nation welfare.

We may use our money and credit system for this purpose either quantitatively, or qualitatively, or both, and by means of control, either made semi-automatic by

The problem of use of our money and credit mec anism as a means of fostering the attainment of our ec nomic and social objectives may be approached eith quantitatively or qualitatively. It is possible to have policy which operates through merely increasing decreasing the total volume of currency and credit wit out regard to the constituent elements making up t total. That is the quantitative approach. Or we may ha the qualitative approach which places principal empha upon the various types of credit outstanding. Furth these methods of control may be put upon a semiautoma basis by statute, or they may be left to the discretion of t banking authorities. That is, we may set up by law t criteria which these authorities must use in determini their policies, or we may omit all such criteria, insofar the law is concerned, and merely instruct the banki

uthorities to follow those policies which in their opinion vill contribute most to the general welfare. A coordinated ise of quantitative and qualitative control and of semi-utomatic and discretionary control would probably be ound most effective.

law or left discretionary, or both.

The specific handling of these various methods of ontrol is primarily an administrative problem. Some of hem are best handled by a central administrator, such as he Board of Governors of the Federal Reserve System, r the federal reserve banks, the Treasury, or, within limits, he Securities and Exchange Commission; others are best andled by commercial banks acting independently or ssociated in clearinghouses.

In our system this authority is divided among government agencies, but the flow of credit to specific borrowers is left largely to the banks.

Such division of authority is now being followed in his country. The Federal Reserve Board and the Securities nd Exchange Commission share responsibility for con-rolling speculative activity in the securities market. The ederal reserve authorities set the requirements for col-ateral loans that may be made by member banks. The ederal reserve banks control the rediscount rate and deter-nine what is eligible for rediscount. The commercial banks re largely responsible for the amount of credit given to ndividual and corporate borrowers and thereby determine he specific flow of credit into the various channels of roduction and trade. In addition, there are various gov-rnmental agencies which within recent years have had a lirect and increasing influence on our credit system. The ederal Farm Loan banks, the Federal Home Loan banks, he Reconstruction Finance Corporation, and other gencies also play an important part.

There is some lack of coordination in this system.

Unfortunately, in many instances, there is not a lear understanding and appreciation between these vari-us groups of what the others are doing and what they re trying to accomplish. This necessarily leads to less fficiency and a less effective money, credit, and banking olicy than is to be desired.

In addition to these broad principles and policies vhich relate to our money, banking, and credit system as whole, there are some problems in connection with money long which need attention. Specifically, we suggest these neasures:

Our program for government action is to maintain the dollar on a definite firm metallic base;

1. Provide that the dollar shall be maintained on definite, firm gold base. However, if at any time the expo or import of gold, or for any reason whatsoever the wit drawals or additions of this metal from or to the ban reserves, should attain such proportions as materially affect the stability of the general price level or the norm volume of money and credit, or threaten to undermine th high level of business activity which our industry oug steadily to maintain, then the exportation or importati of this metal, or its withdrawal from or addition to t reserves, should be so controlled as to minimize t untoward consequences just mentioned.

to reestablish a gold coin standard; to end the silver purchase program;

2. Reestablish the right of private ownership of go in any quantity private individuals desire; that is, reesta lish a gold coin standard. A gold bullion standard, in whi the only convertibility of paper money into gold is in uni of the standard gold ingot, is a rich man's gold standar We should adopt a system in which the person of sm means has the same right and ability to convert a part his savings into gold as the individual who can deal in uni of thousands of dollars.

3. Encourage the reestablishment of gold as t monetary standard of the world.

4. The government should discontinue, both home and abroad, its present silver-purchase program.

5. Repeal the part of the Gold Reserve Act of 19 which gives the Secretary of the Treasury the power, wi the President's approval, to purchase and sell gold "at su rates and upon such terms and conditions as he may dee most advantageous to the public interest."

to repeal powers of President to fix price of gold and silver, to devalue coins, and to issue "greenbacks";

6. Repeal that part of the same act which empow the President to provide for unlimited coinage of silver, change the mint ratio between gold and silver, to alter t weight of silver coins, to establish bimetallism, and, at discretion, to prescribe mint or seigniorage charges for t coinage of silver; likewise any other laws which make possible for the Secretary of the Treasury to buy sil except for monetary purposes and then only at the mar price. No silver should be purchased by the government a price greater than the monetary value which is \$1.29 per fine ounce.

7. Repeal the Thomas inflationary amendments ıthorizing the President to issue "greenbacks," to revalue lver, to change the gold content of the dollar, and to ›rce the federal reserve banks to buy government bonds.

8. Repeal the authority of the federal reserve banks › buy government obligations directly from the Treasury.

and to repeal authority of federal reserve banks to buy government obligations directly from the Treasury.

Savings and Investment

Saving and investment are necessities in the attainıent of ultimate activity; they are immediate necessities ı the attainment of ultimate ends. The basic purpose of uman economic endeavor is, on the one hand, the enjoyıent of more and better goods and services, and, on the ther, the attainment of this end by smaller outlays of me and effort. This objective can be reached best, if not ıly, through saving and the wise investment of capital.

Saving and investment are fundamental to the attainment of the people's economic aims.

Fundamentally, the problem of saving and investıent is to establish and maintain those conditions which 1) promote and make possible the accumulation of subantial savings and (2) lead to the conversion of such ıvings into investment in sufficient volume to assure a igh and increasing level of production and employment ı the economy and hence higher real wages for the orkers and larger real income for the population at rge. A vital corollary of the second aspect of the probm is the reestablishment and maintenance of smoothly ınning capital markets and security exchanges.

Conditions favorable to them are therefore of vital concern.

Obviously, if we have tax laws which eat up any ırplus between the cost of production and the receipts om production, or which make it impossible to keep ıcome above outgo, there can be no accumulation of vings. Obviously, also, if the policies and attitude of the ›vernment are such as to destroy confidence in the future, ıe owners or managers of surplus funds will tend to hoard ıem rather than invest them in private enterprise. A imary requisite for assuring an adequate capital supply, ıerefore, is to have a tax system which does not prevent ıe accumulation of a surplus. Another requisite is to have tax system, as well as a general attitude on the part of ›vernment, which does not deter the investment of such ırpluses in private enterprise.

Government policies may prevent accumulation of savings or deter investment of them in enterprise, such as an oppressive tax system or an attitude generally hostile to private enterprise.

Unless these two conditions are met, our econom organization will stagnate and it will not be possible continue the rate of growth necessary to provide econom opportunities for the new workers resulting from popul tion growth, to meet the requirements of changing a distribution, and to have those technological improv ments which result from competition between produce

If those conditions are favorable, efficient capital markets and security exchanges are needed to assure the flow of capital into investment.

On the other hand, if the above conditions are mai tained, the basic problem in connection with savings a investment is maintenance of capital markets where holders of surplus funds can be brought in contact wi those who need additional capital. Without such we developed, smoothly running capital markets and securi exchanges, even though the tax policy is sound and ev though the government's attitude is favorable to priv business, it is impossible for the Individual Enterprise S tem to function effectively. This is because when we not have such capital and security markets, or when t markets are curtailed and hamstrung by needless gover mental regulation, business must be financed either by t owner's own capital, or by surplus funds of his friends, by private placement of securities, or as a last resort some government agency. In a modern, fully develop economy this cannot be a satisfactory situation. Only relatively few large, well-established firms are able to private placement of securities to advantage, and as a r only small local businesses are able to get needed fu either from the owner's own capital or from surplus fu of his friends. In the absence of effective capital mark many businesses are driven toward reliance upon gove ment, with insidious undermining of their freedom.

We have such markets and exchanges, but we need to review and revise the regulation of them so that they can function more effectively.

In the United States, fortunately, we have effect markets for the raising of new capital, for the refundi of old issues, and for trading in outstanding securities. C problem is to make it possible for these markets to functi in such a way as will support the healthy expansion business, both large and small, will encourage the taki of risks and exchanging of securities, and yet will prev excessive speculation or other abuses. Much would accomplished in this direction if tax laws were changed harmonize with the principles mentioned in the preced

ragraphs and as outlined in some detail in Chapter XV "Trends in Public Finance." In addition to such anges in tax laws, however, there needs to be a thorough d careful review of present regulations of capital mar-ts and security exchanges, for the purpose of removing ose controls and those expenses which are needless ndrance to capital flotation and trading in securities.

In practice such revision would mean extensive odification of the Securities Act and the Securities and change Act and a substantial overhauling of the present ass of rules, regulations, and controls. The details of this odification and overhauling need not concern us at the oment. In almost all cases the changes which need to be ade are purely technical in character. Further, much of e present difficulty arises more from the attitude of those lministering the acts and the way they apply the rules, gulations, and controls than from the acts and regula-ons themselves. It is sufficient for the present purpose, erefore, to note:

1. The only regulations which should be maintained e those which will prevent abuses in the sale of new curities and in trading in outstanding issues.

2. The government authorities should limit them-lves to protecting the public against fraud and against adequacy of information, but they should not pass upon e economic soundness of security issues.

3. It is proper for the public authorities to require companies whose stock is widely held by the general iblic to issue reports conforming to principles and stand-ds which the accounting profession approves. Such ports should be made promptly, informatively, on a asonably comparable basis, and in reasonable detail.

4. Congress should review the experience under the curities Act and the Securities and Exchange Act with a ew to clarifying the powers and the administrative ocedure of the Securities and Exchange Commission.

Governmental regulation in this field should be limited to the prevention of abuses. It may include requirement that companies widely owned issue reports reasonably detailed and conforming to an approved standard.

Subsidies

At no time in our national history has our economy en completely free of government subsidies of one kind

Government subsidies go back to the beginning of our national history.

or another. In the early days of the republic our first pro tective tariff was enacted, to be followed in time b considerable subsidization of banks and canals and, at little later date, of railroads. In still more recent times th idea of subsidies has been extended to shipbuilding, a transport companies, and, most of all, to agricultur We have had also in recent years a labor policy on the pa of the federal government which has enabled some labo unions to attain a monopoly position and to charge wh amounts to monopoly prices. Such wage scales hav resulted in higher prices for commodities produced b these workers than otherwise would have prevailed; ther fore, this policy must be considered as an indirect subsid

Now a substantial portion of our productive organization receives direct or indirect subsidies.

In a word, then, we are today in a position where substantial portion of each of the three main divisions o our productive organization—industry, agriculture, an labor—is the recipient of either a direct or an indire government subsidy. It may well be, too, that if we a going to have subsidies it is more desirable that all thr should be beneficiaries, rather than that benefits shoul be limited to only one or two of them. But in the fin analysis such a line of reasoning is merely a means o dodging the real issue, whether or not subsidies are just fied; and it is to this question that we must find an answ in outlining a long-term program for the Individu Enterprise System. (Tariffs are discussed in the next se tion, and agriculture in the section following.)

The public welfare may require that certain parts of the economic system be partly supported by government aid; as, for example, certain industries essential to national defense.

The first point that may be noted in looking for a answer to this question is that it may be necessary for t public welfare to have certain parts of the economic sy tem supported to a greater or less extent by governme aid. An outstanding example is the aid to those industri whose products in the broader sense are essential to nation defense and would not otherwise be produced in adequa volume. In the world as it is today, and as it will probab continue to be for many years, no nation of our standir and wealth can afford to be wholly dependent upon foreign country for an adequate supply of essential mil tary materials. It is therefore recommended that son appropriate Congressional committee study the matter o subsidies to essential industries and recommend measur

designed to encourage such production either in this country or in other countries in this hemisphere.

Any part of the economy long subsidized may be injured seriously if subsidy is wholly withdrawn at once.

The second general point to be noted in connection with subsidies is that whenever any part of the economy has been the beneficiary of a government subsidy over a long period of time it is usually more or less disastrous to eliminate the entire amount of such aid in one fell swoop. In these instances the government, through its past policy, creates for itself a responsibility which it cannot suddenly throw overboard. Therefore, though it may be an error for the government to follow this policy of aid, once the economic system has become adjusted to such subsidies it is usually necessary that the withdrawal of the government help shall be gradual and according to a predetermined program, and that the affected parties have adequate advance knowledge of the program to plan for any necessary readjustments.

A practical program as to the problem of subsidies would provide gradual and orderly withdrawal.

It is this latter fact—the necessity for gradual withdrawal of government help—that makes the present problem so difficult to solve in this country. We have a situation today which in both the magnitude and the reach of subsidies almost certainly is much worse than it would have been if the government had shown more wisdom in the past in the granting of aid. But, for the moment, that is neither here nor there; the task that faces us is the formulation of a practical program that is applicable to things as they are.

Since subsidies have constituted a factor of some importance in the operation of American industry, commerce, agriculture, and labor, means must be found of withdrawing these subsidies with as little loss and disturbance as possible. Abrupt termination of all subsidies might well cause enough suffering to create political repercussions and thus reintroduce dependence upon subsidies, whereas gradual and orderly termination of subsidies should prove to be highly beneficial to our economy.

Meanwhile additional subsidies should be avoided.

A first step is to prevent the adoption of additional subsidies. For example, an export subsidy on cotton cannot fail to create a demand for subsidies on the part of other producers for export and will also bring reprisals from foreign countries. Whether subsidies take the form of

import duties, which are ordinarily designed to benef manufacturers, or payments on exported commoditie which are supposed to benefit farmers, or subsidies : connection with ocean-going steamships or internation air transportation, or minimum wage rates which a devised and administered for the purpose of advancir general wage levels rather than for protection of the weak members of our working population, all these devices a uneconomic and tend to contract our national income.

In withdrawal of subsidies all recipients should be treated equitably, with time for adjustment to the competitive system.

No special segment of our population, wheth industrial, commercial, agricultural, or wage-earnin should be singled out to be deprived of legislative favo which it might have gained in the guise of subsidies. Sy tematic contraction of all nonmilitary subsidies should b initiated at once, and the process should be carried t completion over a period of 20 years or so, with a view t giving each element of our population ample time fo adjusting itself to the system of competitive prices, bot domestic and international, which is essential to the be interests of our country and of its citizens.

Tariff

The reduction of the protective tariff, as a form of subsidy, presents special difficulties.

For many nations will maintain tariff barriers against us; and our economy has developed behind tariff walls.

Protective aspects of tariffs, like subsidies to agr culture and certain industries, represent elements c artificiality in the economic system which we shoul begin at once to eliminate in an orderly manner, subje to conditions hereafter stated. The problem is how t accomplish this elimination without causing more harr than benefit. Although on a theoretical basis it can b shown that the world would be better off if a system c free trade were followed by all countries, just as our natio is better off by not having state barriers against the move ment of goods, this ideal cannot be reached in the presen state of world opinion. We must recognize that man nations will maintain tariff barriers against us; also tha some nations will attempt to take advantage of any con cessions we make in the way of tariff adjustment. Furthe we must recognize that for over a century our econom has developed behind tariff walls.

What does this mean in the way of a possible work ing program for adjustments in the tariff? It means:

Trade restrictions cannot be completely removed at once.

(1) that a complete removal of trade restrictions can be only an ultimate goal and will take many years to attain even under the best of circumstances;

We should use the "most-favored-nation" plan.

(2) that we should use as the basis of our tariff adjustments, in all cases where there is no discrimination against us, the principle of the unconditional "most-favored-nation" clause; that is, any changes we make in our tariff should be applicable equally to all nations which also accord us "most-favored-nation" treatment;

Protection is proper against dumping, etc.

(3) that it is proper to provide protection against "dumping" of foreign products in our markets and against other forms of unfair competition;

Certain kinds of production need protection for military reasons.

(4) that there are certain lines of production which for military purposes must be established and maintained in this country even though our costs of production are above world prices. These must be protected by either tariffs or subsidies.

In our present position as greatest creditor nation, a tariff reduction policy, properly safeguarded, is advisable.

With these limitations in mind, it would be advisable to have as our national policy the gradual reduction of protective tariff duties, except where the above limitations apply, to that point which will maximize production and consumption under competitive conditions in the United States. The rate of reduction should be such as not unduly to disrupt our domestic trade and employment.

Notwithstanding the validity of arguments to the contrary in the past, such a course of action has now become the only logical one in the light of our position as the world's greatest creditor nation.

Agriculture

The agricultural situation presents a major problem on account of five factors:

Agriculture in the United States has constituted a major problem primarily because of five factors:

1. As a result of high prices for various agricultural products in the first war period, or more accurately from 1915 to 1920, there were various developments which aggravated the farm situation. (Many of these developments, at least to some extent, again came to the fore in World War II.) Some of the more important of these were:

1. In World War I much unsuitable land was brought under cultivation, land prices were inflated, heavy mortgage burdens were assumed, tax assessments were increased, and specialization on certain commercial crops was fostered.

(*a*) Much land was brought under cultivation tha should have remained in pasture or forest.

(*b*) Land values rose to levels not justified by the norma value of the product that could be obtained fron cultivation, and on the basis of this inflated valu a heavy and unwieldy mortgage structure wa created.

(*c*) Because of the higher prices for lands, assessed value were increased, which had the effect of making th tax load heavier; in many cases these assessments hav not been adjusted downward in proportion to th decline in the value of the property.

(*d*) A tendency toward specialization on individua farms operated to develop in farming a tendency to become more and more a business and less an less a mode of living. In other words, agriculture i the past generation has become more capitalistic with a greater investment per farm and per unit o product, with more machinery employed, mor specialization of production, and more use made o branded commodities for sale in distant markets.

2. Farmers have lost the greater part of their export market.

2. For a variety of reasons both domestic and for eign, farmers lost a major proportion of the export marke for their products.

3. Soil conservation was long neglected, so much land lost its productivity.

3. Under the stress of bad economic condition especially during the dozen years previous to World Wa II, farmers were unable in many instances to make th necessary expenditures for the conservation of the fertilit of their land and the prevention of erosion. This neglect in combination with widespread destructive farmin methods over many decades, materially lessened the pro ductivity of much of our land and created both a economic and a social problem.

4. Inefficient producers are not eliminated in agriculture so readily as in industry.

4. Since the farmers by reducing their scale of liv ing can sell their products at prices substantially belov what should be considered a fair cost of production, ineffi cient producers are not eliminated in agriculture to th degree that they are in industry. An economically selectiv process has been further hindered by a governmental polic which for a quarter of a century has been designed pri

arily to keep farmers on their land even though they are ıbmarginal producers.

5. As a result of the transition from horse-and-uggy to motor transportation, the amount of land needed ɔ provide feed has been substantially reduced. Some esti-ıates place the loss of market from this cause alone as qual to the production of 30 million acres. This and milar changes in the demand for agricultural products, lus the increased productivity resulting from the use of ıachines, have led to a potential farm production sub-antially in excess of the demand.

5. The amount of land needed for feeding horses has been reduced, and the productivity of farm labor has been increased by machinery.

ids toward a Self-supporting Farm Economy

In the development of a positive program to meet ıis agricultural problem, it must be borne in mind that ıe ultimate objective is to get agriculture back upon an ıdependent self-supporting basis. As just noted, because of echnical development in agriculture, a continually smaller roportion of the nation's population is needed to supply ıe nation's requirement for our farm products. This ıeans that the only fundamental solution to the agricul-ıral problem is to find new jobs, either in agriculture, in ıanufacturing, or in the service industries, for the surplus ırm population—jobs where the productive output of ıese workers can be sold for enough to provide improved ving conditions. The major shift in farm policy should e designed to get those off the farms who are not needed to urnish food or fiber supplies, rather than to keep them on. ccordingly it is desirable that price-support and produc-on-control devices and subsidies to farming as such should e removed as rapidily as possible, without unduly dis-ıpting our domestic economy, especially agriculture.

The ultimate aim of a farm program should be self-supporting farms.

Subsidies and other control devices should be removed as rapidly as economically feasible.

There is substantial economic justification for such recommendation:

1. The removal of artificially high prices for agri-ultural products—which are no less to be condemned as a ıonopolistic abuse because they are effectuated by gov-nment—would tend both to lower the nation's living ɔsts and to diminish the danger of a general price inflation.

2. This policy would bring into play the competitive

Removal of artificially high prices would lower living costs and help

to avert general inflation. It would bring competitive forces into free play in farming.

forces which would ensure that the most efficient ar lowest-cost agricultural production would continue, ar the least efficient producers would be under constant pre sure to seek occupation where their efforts would resu in the production of greater values.

It would extend the market for farm products.

3. By the elimination of artificially high prices, it logical to expect that a somewhat greater market fo agricultural products might appear. This is because low prices might well lead not only to expansion and new us for farm products domestically, but as well to the recap ture of at least part of the foreign markets which hav been lost as a result of our policy of holding domestic pric for farm products above world prices. Because of suc increased demand, employment in agriculture might b maintained above levels that otherwise would prevail.

It would stimulate farm chemurgy.

4. This policy would materially aid the deveolpmer of farm chemurgy. This alone could be of immense aid i helping solve the agriculture problem. Without attempt ing to present more than typical examples, attention ma be directed to industrial alcohol from farm products, t farms as a source of cellulose, and to such products a tung oil, ramie, and soybeans, all of which have wide us in industry.

It would apply the sound principles of nonsupport of uneconomic enterprises and refusal of special privileges.

5. There is a basic moral justification for such policy in that, although the nation as a whole may have a obligation to relieve the distress of its unfortunate citizen it has a duty not to support uneconomic occupations nc to give specialized and unfair treatment to a particula class of people selected on account of their occupatio rather than their need.

Welfare Spending by Government

Increasing specialization reduces workers' self-sufficiency.

As a nation becomes more complex and its variou parts become more interdependent, the relative ability c individuals and families acting alone to assure the uninter rupted satisfaction of their needs becomes progressivel less. This situation results from that specialization c employment which, by causing each worker to devote h working time to a special pursuit, bars him from keepin himself largely self-sufficient in all the phases of his life–

; was on the whole the pioneer family that grew its food, oun and wove its cloth, provided the fuel it needed, etc.

Specialization of employment constitutes in effect basis for the exchange of products between specialized roducers; between, say, the automobile worker and the xtile worker, between a shoe-factory worker and a bread-ctory worker. Whenever one of these workers, or these roups of workers, is removed from employment, either rough illness, accident, old age, or the hazard of enter-rise itself, it becomes difficult for that individual or group sustain himself or itself over any considerable period of me. If an individual who has made shoes, for example, ust drop the trade in which alone he is skilled, he cannot ng continue to offer to the bakery group, or the textile oup, anything which these groups will accept in exchange r the bread or clothing that they manufacture.

Any considerable withdrawal of producers from their work in our interdependent economy creates a weak sector which may spread degeneration.

The result of such withdrawal of producers, if the umber becomes significant, is to create a weak sector in the twork of our society; and that weak sector, as we saw at e beginning of the depression of the thirties, may spread ntil it covers an area involving other sections and other oups and thus create a real danger of deterioration in the stem under which we as Americans live. The danger at ch a time is not only that it may bring about a degenera-on in the fabric of our manhood and in our economic gor and scale of living, but that it may even threaten r very institutions and our liberty.

So with some economic justification government's funds may be used for broad welfare problems that cannot be handled otherwise.

For these reasons, and not only because of the indi-dual's sense of justice and charity toward his neighbor, ople may with real justification approve the use of gov-nment funds for purposes of protecting the national bric by specifically defined welfare expenditures. For de areas of welfare it will continue to be true that local thorities and local private bodies can best serve to cor-ct particular situations. But some broad welfare prob-ns can be handled only by the federal government.

Such welfare spending may be classified by its relation directly to individuals or

The allocations of the nation's income with which s section deals are divisible into those which relate ectly to individuals and those which relate to the onomic system as a whole. The first of these includes l-age pensions, unemployment insurance, relief, and

its relation to the economy as a whole.

health service; the second includes such things as flo control, improvement of highways, rivers, and harbo reforestation, and water and power developments.

I. Related Directly to Individuals

Old-age Pensions

Old-age pensions might properly be a certain percentage of average individual income for nation, adjusted to relative cost of living in the locality of residence, plus an addition for dependents.

To assure adequate protection for old age it shou be provided that, in lieu of the present contributo system, each person beyond some designated age shou receive an amount based upon the per capita income the nation, without regard to his income from oth sources, but with allowance made for the cost of livi in the locality in which the recipient resides, and wi further allowance for the economic need of the recipie as affected by the number of those dependent upon him.

More specifically, the formula for old-age pensio might well be that the government will pay to each ind vidual beyond the designated age an amount equal to stipulated percentage of the average income of individu in the nation multiplied by the ratio of an index of the co of living in the locality in which the recipient lives to index for the average of the country as a whole, plus additional, say, 50 per cent of this amount for each depen ent over twenty-one years of age and 25 per cent of th amount for each minor dependent.

To put this system of payments into practice obv ously would necessitate the development of more compr hensive indices of the cost of living than we now hav Adjustments in the base upon which the amount of th payment is calculated—that is, the per capita nation income—should be made on an annual basis. With an thing approximating economic stability the variation fro year to year would be comparatively small. At the sam time such annual revisions would assure that the welfa of the recipients would be protected if the per capi national income skyrocketed as a result of inflation. Co versely, taxpayers would be protected against a rise value of the individual payments in relation to the averag national income in a period of widespread deflation.

The proper basis for meeting this additional burden pon the Treasury should be a general federal sales tax payble upon the final sale of all goods. The program should e on a pay-as-we-go basis, with only a "balance-wheel" eserve to allow for unusual demands.

A federal sales tax would be a proper source of revenue to pay these pensions.

nemployment

Unemployment (aside from those who just prefer to af) is of three distinct kinds: (1) There is that caused physical or mental unfitness. These unemployed are the -called "unemployables." (2) There is the temporary nemployment arising from technological improvements industry, from the shifting of industry from one locality another (such as the moving of textile mills from New ngland to the South), from seasonal variation in the volne of business, and from competition. (3) There is the nemployment caused by the broad cyclical swings of isiness.

Unemployment may be divided into three classes, as caused (1) by unemployability, (2) by technological improvements, seasonal variations, or competitive changes, (3) by cyclical swings.

It is not possible to have a single solution for meeting ese three kinds of unemployment. Each represents a disict problem and economically must be met as such, hough it must be recognized that in practical administran it is not possible always to distinguish between them.

1. *The unemployables.* Those who are unable to rk because of physical or mental unfitness constitute a rmanent charge upon society as a whole which has to met either privately or by some branch of the governnt. This is a problem, in other words, which cannot solved by improved economic conditions, for this unemyment would persist even in the face of what is called ll employment." Further, the volume of such unemyment follows a fairly steady trend line, and hence can be forecast from year to year with a high degree of uracy.

The unemployables constitute a continuing charge upon society, which may best be met by voluntary agencies and state and local governments.

In meeting this problem of the unemployables, the t decision that needs to be made is whether the burden o be carried by private charity or by some branch of government. Until the past few years the problem of ing for these unfortunates was left largely to private rity, although there was also considerable aid given

through county poorhouses or similar governmental orga zations. On the whole it is desirable that we return this policy and that to the maximum extent possible burden be carried by private charity and state and lo governmental agencies. In other words, this is not a pr lem which should be shouldered by the federal gove ment. The total cost involved in taking adequate care these people is not above the ability of the states localities to carry, aided by private effort; and society a whole would be better served if this particular prob were left to them to be handled either strictly on a priv charity basis or through branches of the local gove ment, as may be decided by the people in the locali involved.

Technological, seasonal, and competitive unemployment needs to be cared for on a broader basis.

2. *Technological, seasonal, and competitive un ployment.* Unemployment arising from technological tors, from the moving of industry from one locality another, from seasonal elements in industry, and f competition is not a problem which can be adequa handled either by private charity or by the local immediately concerned. The reason for this is that, altho when we consider the country as a whole the volum such unemployment is relatively small and is a fairly c stant factor from one year to the next, it is a hig variable element in any particular community. There it is imperative that the charge be distributed over a w base and not be thrown upon such a limited area that expense may become insufferable. Furthermore, when eral companies and producers compete with one ano for consumers' choice, some succeed and some do not. lack of success may be relative or absolute. When it is a lute, the company goes out of business and its emplo lose their jobs, although they may be just as good work just as good citizens, and just as thrifty as the worker the successful companies. It is unfair to say that workers shall suffer special hardship because their emp ers have been unsuccessful in the competitive struggle. very competitive struggle may, however, extend g benefits to consumers as a whole, because it increases quality of the goods or the service rendered in rela to the price. It is logical, therefore, to expect consu

a whole to meet the costs of privation caused by competitive and technological unemployment.

Each state should maintain an unemployment compensation fund, raised by a pay-roll tax paid equally by employers and employees, with compensation diminishing from full wages the third week until extinguished in 9 weeks thereafter.

What this means in practice is that we need a system f unemployment compensation to which all of those who enefit will contribute. In this way the total burden falling upon any one person, or any one community, can be eld at a minimum, but in the aggregate the sum collected ill be adequate to meet any reasonable charge that may rise from this cause. Specifically, it is desirable that each ate maintain an unemployment compensation fund, ised by a pay-roll tax, one half of which is paid by nployees and the other half by employers. In case an nployee loses his job through no fault of his own, there ould be a waiting period of 2 weeks in which he receives help from this fund, and then in the third week he ould receive an amount equal to his last weekly wage. hereafter the compensation, if he does not find employent in the meantime, should be continued for a maxium of 9 weeks, with the amount diminishing 10 per cent the initial amount each week.

It is also desirable that arrangements be made for training employees thrown out of work because of chnological developments.

General unemployment, unlike the two other classes, is caused and removed by business swings.

3. *General unemployment.* As indicated above, the oblem of unemployment resulting from physical or ental unfitness will not be solved by improved business nditions. In the case of technological unemployment and e unemployment resulting from competition this is nost equally but temporarily true. Better business conions would enable those thrown out of work because technological and competitive factors to find jobs more omptly than otherwise, and so reduce the aggregate rden of caring for this type of employment, but it uld not prevent the loss of jobs in the first place. Unemyment caused by broad cyclical swings in the volume of siness activity, in contrast, is of a quite different charer because it is eliminated as the cycle moves toward l recovery.

The relief required by this type of

It is desirable, nevertheless, in thinking of a broadige program, to make allowances for our falling someiat short of such full recovery from time to time. In

unemployment should be provided by the federal government, since it is national in scope.

other words, we need to establish an organization to m any general unemployment that might occur and thus prepared for the problem should it arise.

In making this preparation the first point that ne to be emphasized is that, again in contrast to the case of unemployables and technological and competitive une ployment, this is a matter for the federal governm rather than for localities or the states. This is because are here dealing with something which is national scope and consequently needs to be financed on a natio basis.

But the administration should be left in local hands.

The second point to be emphasized in connect with such general unemployment is that, although it m be thought of as a national problem, the federal gove ment is ill prepared to know the needs of the various loc ities in detail. Therefore, in order to get efficiency a justice in the giving of this aid, the administration sho be left in local hands. This also is essential in order to p vent "federalization" of relief, which tends further undermine the independence of the states.

Specifically, therefore, it should be provided that or when it appears that a state is unable financially to ca the load, the federal government will make necessary co tributions to such a state to enable it to take care of unemployment incident to broad swings in the volume business activity.

Payments should be based on average per capita income in state, and subject to a means test.

In using these funds, each state should make p ments based upon the average per capita income of t state, with allowance made for the need of the recipie In other words, there should be an income-means t Further, it should be provided that the aid may be gi either in cash or in kind, as determined to be in the b interest of the recipient by the local relief administratio Finally, it should be required that full details be publisl at frequent intervals as to the costs of administering t relief.

Public employment offices should be maintained.

It is desirable, of course, to maintain througho the country public employment offices which could se as a really adequate clearinghouse on information to the availability of jobs and the persons looking work.

ealth Service

Closely related to the old-age and employment probns just considered is the provision of general publicalth facilities by government. The United States has an cellent record in offering free medical service to those embers of society who are unable to pay. Further, with e spread of health training in our schools and with the pid increase of health programs by industry, which are ving such excellent results, we are making real progress meeting this particular problem. In looking to the ture, too, it is essential that private activity and indusial health programs shall not be discouraged, that nothing all be done to undermine the financial independence of e medical profession, and that the individual shall conaue to have the right to choose his own doctor and be couraged to make provision for taking care of himself. also is important that the excellent results being obtained rough cooperative health services should not be underined. Finally, it should be noted that public-health work a purely routine character is best handled by state and cal authorities.

Progress in provision of health facilities is notable.

Private activity in this line should not be discouraged, nor the independence of the medical profession undermined.

There is, however, a field for federal government tivity in connection with the provision of health facilis. Specifically, it should carry on research in the interest maintaining and improving the public health of the tion and should take such steps as necessary to prevent e spread of diseases whenever the problem clearly cant be adequately handled by the state or local governent. In meeting disasters which imperil the public health, primary reliance should be placed upon agencies such the Red Cross with the federal government making only ch contributions as necessary for them to perform their ties.

Routine public health work is best handled by state and local authorities, but the federal government also should carry on health research and aid in emergencies.

II. Related to Economic System Broadly

In contrast to such welfare spending as discussed in preceding paragraphs is that having to do with those provements and developments which, for one reason or other, private enterprise itself cannot undertake. There

Improvements and developments for general wel-

fare beyond the capacity of private enterprise should be carefully appraised.

is a constant tendency on the part of government spen
and those who have lost confidence in the Individual En
prise System, to use this type of welfare spending by
government as a pretext for advancing their partic
theories. In considering this type of spending, therefor
is imperative that care be taken to guard against t
tendencies and that the field clearly be limited.

The first consideration is whether or not the project is really outside the scope of private enterprise.

The first consideration in the formulation of a p
gram of such welfare spending which relates to the e
nomic system as such is whether individual enterprise
given the opportunity, would undertake the developm
in question. As a general principle, it is safe to say tha
private individuals and companies will undertake
development, society will be better served by permit
them to do it. Further, if the development is of a chara
which under proper conditions would appeal to indivi
enterprise, we may be sure that it will be undertaken
in consequence there is no justification for governme
intervention.

If so, then the advantages and disadvantages of the government expenditure should be carefully weighed, in relation to the state of federal finances.

If the project in question is not suitable for
attractive to, individual enterprise, the government
may properly weigh the advantages and disadvantage
making the necessary expenditures; that is, balance
possible benefits to be derived from the expendi
against the additional burden of taxation which will
to be imposed upon the public in order to pay for
project. This means, in practice, that certain developm
which might be desirable at a time when federal fina
are in a strong position, when the public debt is low,
when the tax burden is relatively light, may be q
undesirable at other times when federal finances alre
are being strained, when the public debt is attaining
gerous proportions, and when further taxation w
subject the public to real hardship.

In any case, benefits should clearly outweigh the cost.

Because of this possible variation in the basis u
which the desirability of such spending rests, it is not
sible to draw up a hard and fast program for the futu
the sense of specifying either the particular projects w
should be undertaken or the amounts which shoul
spent year by year. In all cases, of course, the governm
should enter into such welfare spending only when

enefit clearly and beyond any question outweighs the ost. Nevertheless, it is possible to give a general outline f such a program and to indicate the broad fields in which ich spending as we can afford can be concentrated.

lood Control

Of these broad fields of such welfare spending the rst that may be considered is flood control. Unquestion- bly there has been much abuse in spending of this char- cter in the past and many projects have been financed nder the name of flood control when the real purpose of eir proponents was quite different, but it is not necessary at we should have abuses of this type, and with proper tention from our governmental authorities it should be ssible to prevent a recurrence of them. Although in some ses private funds have been used for mainly local flood- ntrol purposes, they are obviously not available for otection against widespread flood conditions. Insofar as e have a flood-control problem in this country, there- re, and needless to say we do have such a problem, if is to be met at all it must be met by governmental tlays.

Flood control is a proper field for government outlays.

Here is a type of welfare spending which properly longs to the field of government. The basic question is nply how much should be spent for this purpose and ien and where it should be spent. This must be deter- ned, as indicated above, by careful and constant weigh- g of possible advantages against the burden of the cost the time the project is being considered. In general it y be said that no such expenditures ever should be made the purpose of raising the level of business activity. ther the expenditures should be made only when the ings or income they yield clearly will support the penditure as a public investment with due considera- n to public health and safety. The outlay should be at expense of the political division—nation, state, county, town—appropriate to the scope of the improvement, l when it is at all feasible the outlay should be ompensed by local assessment against the property efited.

But these should be made with discrimination as to relation of cost to benefits and as to political unit that may properly undertake the project.

Highways, Rivers, and Harbors

Highways, rivers, and harbors also are responsibilities of government.

The development and maintenance of highways a the necessary dredging of our rivers and harbors to ke them navigable are further examples of a field of welf spending that cannot satisfactorily be handled solely private individuals. In the case of river and harbor wo in fact, it may be said that for all practical purposes th is no alternative to having the government meet t expense if the job is to be done. In the case of highwa the alternative to having the government—either fede state, or local—undertake the task is to return to a syst of private toll roads—a method which obviously would unsatisfactory as a means of providing a general syst of highways.

These projects, too, should be undertaken only when there is economic, military, or social justification of the expenditure.

This does not mean that the government should l all restraint in making such expenditures. Far from it. all cases such spending should have an economic, milita or social justification—such justification of expenditu not "pork-barrel" considerations, being the primary f tor in both the extent and the character of such highv construction. Further, it may be said in general that highways now have been developed on a nation-wide b to such an extent that construction by the federal gove ment is less imperative than in past years and from here it would be wise policy in most cases to leave further c struction primarily to state and local governments.

Reforestation

As to reforestation, outside of government lands the primary function of government is to encourage adoption of principles and practices of economic cutting of timber.

The extent to which the government should e into spending for purposes of reforestation is a s stantially more complicated problem than is found in c nection with either flood control or highway, river, harbor developments. Timber-cutting companies are c ing to realize more and more that by scientific fore they can perpetuate the value of their property and in long run get more timber than they will if they fol indiscriminate cutting. On land on which there is a sta ing timber crop, therefore, government aid is not nee and should not be expended except as a matter of protection and to prevent and control the spread of

blight and other diseases or pests. In other words, the primary function of government in the field of forestry should be to draw up principles and practices of economic cutting of timber and encourage their general adoption.

One of the best methods for getting the adoption of such sound forestry principles and practices would be to get the state and local governments to impose taxes only on the income derived from timber cut, rather than upon the capital value of the standing timber. If the governments will follow this policy, we can be certain of having adequate timber for our future needs. In other words, if the present widespread system of taxing timberland on its capital value can be eliminated, private enterprise will shoulder the burden of carrying the investment for the period between the planting of trees and the time when they properly can be cut for commerical purposes. The only time the government needs actively to step into the picture of reforestation, except on public land, is when extension of timberland is essential to flood control, to the protection of water supply, especially for urban communities, to the agricultural program, or to make use of abandoned land.

The limitation of taxation on timber land to tax on income from timber cut would assure adequate timber supply for the future.

Irrigation and Water Supply

In those few cases in which neither private enterprise nor local government can undertake projects for irrigation or community water supply, the functions of the federal government may be used. Generally they will best be used in setting up the structure of a self-financing irrigation or water-supply district. There have been enough cases to show clearly that such undertakings can be made self-supporting if justified. There should be an adequate and compensatory charge for the service rendered by such projects.

If federal aid is needed for water-supply projects, they should be so organized as to become self-supporting.

Power Developments

The financing of large power projects by private enterprise is not impossible when they are economically warranted either by a market for power in excess of existing developments or by the economies of improved pro-

Power projects can be financed by private enterprise when economically justifiable.

duction methods for an existing market. Neither the exten
of the development nor the time necessary for its prosecu
tion will be found an insuperable barrier to development b
individual enterprise if there is a clear economic justifica
tion, and confidence that equitable and stable public polic
exists.

When government authority is needed, it can be lent to private enterprise with appropriate safeguards.

Development on the public domain or involving th
right of eminent domain may require the lending of gov
ernment authority to projects carried out under privat
enterprise, as has been done frequently in the past. Suc
developments should be so regulated as to prevent privat
profit from the exercise of the delegated sovereign func
tions of the whole people.

In no case should government undertake to operate power facilities or to transmit or distribute power.

Whatever government may do in the way of cor
structing dams and other power facilities, it is neithe
necessary nor desirable that it operate them, nor is it nece
sary or desirable that government undertake the transmi
sion or distribution of power from such few plants as
may build.

The development of additional *sources* of powe
whether they are privately or publicly owned, has its ful
est economic justification only in consideration of existir
power facilities and should be correlated with them eve
though such correlation involves the ultimate supersessic
of existing facilities exactly as would be done were the
a common ownership.

Public developments should not duplicate existing facilities or compete with regulated private enterprises.

Characteristically, franchises to privately finance
power-supply enterprises have in the public interest be
exclusive, with regulation by local commissions to ensu
the public interest against monopoly exploitation. Ec
nomic considerations similarly require that public develo
ments shall not duplicate existing facilities and, mo
particularly, that they should not add competition b
public undertakings to the regulation to which private
financed undertakings may already have been subjecte
Duplication, governmental economic venture, and t
anomaly of competition between price-controlled priva
industry and government-owned unregulated underta
ings can be minimized by leasing publicly owned pow
rights or, in any event, by sales of energy en bloc to exis
ing locally regulated enterprises for supply to ultima
consumers on a "net cost" basis.

It is entirely improper and a discrimination between itizens that the benefits, if any, of public power enterrises should be denied to one group of the public and xtended to another group on the basis of whether the itermediary distributing organization is publicly or priately owned.

Iultiple-purpose Developments

The most difficult case for determination is that of he multiple-purpose development involving flood control, avigation, or irrigation, or a combination of them in ssociation with power development. In such cases justifiation must be sought under a scientific rather than an rbitrary allocation of costs. Governmental investment in rigation canals, docks, wharves, and power plants should e kept at the minimum scope. Free enterprise should be rought in for the largest amount of construction which ree enterprise can undertake in association with the genral structure. Each aspect of the multiple-purpose evelopment should, to the greatest extent possible, be ept on a free-market basis rather than seek justification y "general social welfare."

On multiple-purpose developments, allocation of costs should be scientific rather than arbitrary and each aspect of the development should be kept as far as possible on a free-market basis.

Labor

It is important to remember that labor constitutes nly one agent of production. Other agents include natural esources, management, machinery, plant and equipment, vorking capital, and the intangible asset known as "goodvill" or "going-concern value."

Labor is only one factor in production.

In general, it may be said that the welfare of workrs is dependent primarily upon continuous employment, ood working conditions, and recognition by employers f the dignity and accomplishments of labor. A correct abor program embraces, therefore, two distinct parts.

The first of these is to establish those basic condiions under which continuous production can be mainained. This part of the problem has been covered elsevhere in this discussion.

The second aspect of the labor problem relates to hose conditions which immediately affect the welfare of

A proper labor program includes provision of conditions favorable to continuous production (treated earlier) and of suitable relations between employers and employees.

the worker. In this aspect the correct policies and prin-ciples, in our estimation, are the following:

Collective negotiation between employers and employees is desirable if not for monopolistic or output-restricting purposes.

1. It is desirable to have collective negotiation wit employers by groups of employees where such effort involve standards of competence and good conduct b employers or employees, stimulate an increasing output and raise living scales. It is undesirable and indefensibl to have collective bargaining which involves collusio between employers and employees to establish monopolisti prices and practices. Industry-wide collective bargaining compulsory inclusion or exclusion of individuals fro union membership, and practices which deliberately restric output are all uneconomic and should be prohibited.

Minimum wages may properly be set up by society.

2. If it so desires, it is proper for society to estab-lish minimum wages, but in so doing it must be recognize that, if this results in forcing some individuals out o employment, they must be cared for through some form of public relief. Special provision should be made for th handicapped in order that they can get work and be pai according to their productive ability, even though this ma be less than the minimum set for able-bodied workers.

The various forms of closed shop are undesirably monopolistic.

3. The closed shop, the union shop, the check-off and the "maintenance of membership" are all undesirabl and contrary to the public interest. Each of them is restric-tive in that they tend in practice to prevent the employ-ment and promotion of those workers who may be bes qualified to do a given job. Furthermore, the closed sho gives the heads of unions a monopoly of the supply o labor, and a monopoly of the supply of labor is as objec-tionable from the standpoint of economic efficiency an public welfare as is a monopoly in manufacturing or dis-tribution.

We approve sound incentive wage plans, and equitable adjustment of wages to productive contribution;

4. Sound incentive wage plans should be expande They are a positive factor which will help us realize a economy of abundance. Such a system also is proper sinc men are in fact of unequal natural abilities, and the differences in natural abilities may be accentuated by dif-ferences in training and experience.

5. From an economic point of view the same rate o wages should be paid men and women whose contributio to output are equal in quantity and quality.

6. Because of circumstances beyond their control, iost employers cannot guarantee and pay a fixed annual rage to labor. However it is desirable that employers study nd make every effort to stabilize employment and thus rovide continuity of employment for as many of their nployees as possible.

maximum regularization of employment;

7. In order to increase plant efficiency and give nployees the best opportunity for both satisfaction and dvancement, each employer should use the methods of ientific job analysis and scientific employee classification best suited to his particular establishment for getting ie right worker in the right place.

scientific job analysis and classification of employees;

8. All promotions, advancements, and wage increases as between employees should, insofar as possible, e on the basis of individual efficiency, ability, and merit. two employees are equal in these respects, then the dvance should be given on the basis of seniority.

and ability and efficiency as main basis of advancement.

9. In private employment the right to strike withut violence is as generally accepted as the right to work rithout molestation. Nevertheless in the public interest is desirable to impose certain restraints on strikes. For cample, it is desirable to require that a strike shall not e called or supported except after a secret ballot, and hat strikes to compel the breaking of an existing agreeient will involve forfeiture of the union's privilege of presenting the employees in collective bargaining. Proection should be given nonstrikers, new employees, ustomers, and others pursuing lawful activities, in ccess to property.

The right to strike is accepted, but the public interest requires certain restrictions.

10. As to hours of labor, it is desirable that employees 1) have adequate time for rest; (2) be given sufficient isure to enjoy reasonable comfort and to use luxury arties and services; and (3) not be worked beyond the point reasonable fatigue at which production slows down and ie accident rate increases.

With respect to the 30-hour week, if efficiency is ich that people as a whole want to work only for this ngth of time, and accept the resulting scale of living, hich necessarily would be lower than if longer hours are orked, no legitimate objection can be raised. The average ork week in the country as a whole should not be an

Hours of labor should be such as to give adequate time for rest and other leisure, but should reflect a balance between workers' wants for pay and for leisure.

General shortening of the work week should be based on improvements in methods and cooperation.

arbitrary period, but rather the expression of what work ers want in relation to their pay. Any widespread increase adoption of a shorter work week, however, should be th result of improved methods and machinery of productio and improved employee-management cooperation.

11. The large national labor unions are huge com binations which wield enormous power. This power can b used to oppress nonmember employees, employers, and th public. No combination should be allowed to have and us such power without being compelled to accept correspond ing legal responsibility for the conduct of its officers an agents. The law should grant consideration only to thos unions which

The power of large national labor unions should be accompanied by corresponding legal responsibility.

(*a*) elect their officers for a limited time by secret ballot after reasonable notice to all members;

(*b*) hold a union convention at least once every 4 years

(*c*) present to their members at least once a year audite accounts of receipts and expenditures;

(*d*) refrain from contributing funds to any politica party;

(*e*) accept responsibility for the acts of their officers an agents; and

(*f*) call or support strikes only after a secret ballot o those union members directly involved in the disput

Exemptions of labor unions from the legal process of injunction should be repealed.

12. The Norris-LaGuardia Anti-injunction Ac made unavailable a device which had been available for th protection of citizens in those labor disputes which gav rise to violence and intimidation. The act is plainly cla legislation, in favor of militant organizations which alread enjoy a large measure of legal privilege and immunity. I should be repealed.

The National Labor Relations Act should be amended in various particulars, in the interest of justice to all concerned.

13. In the interests of justice the National Labo Relations Act should be substantially amended as follow

(*a*) Unfair practices by labor organizations should b clearly defined and prohibited.

(*b*) The right of free speech should be preserved fo both employers and employees.

(*c*) Coercion or intimidation of employees by anyo should be prohibited.

(*d*) Employers should not be permitted to compel employees to belong to or remain in a union.

(*e*) Rights under the act should be denied to labor organizations which have collusive agreements with a group of employers—by which the employers agree to hire only union members, and the employees agree to work only for these employers.

(*f*) The classification of strikers as employees should be clearly delimited.

(*g*) The NLRB should be compelled to act upon bona fide requests by employers for elections to determine employees' bargaining representatives.

(*h*) The NLRB should not favor any particular union or form of employee organization.

(*i*) No labor organization which denies legal responsibility for the acts of its officers or agents should be qualified to represent employees or otherwise claim rights under the law.

14. Employers should, wherever possible, establish nd maintain training and rehabilitation programs and evelop openings for returning veterans, not only for ose who have formerly been employed by them but for thers as well, and especial attention should be devoted to ose who have become physically handicapped. Many of ese can, with proper training, become self-supporting.

Employers should have training and rehabilitation programs for veterans.

15. Employment offices operated during the war by e federal government should be operated by the states nd every effort should be made to increase their efficiency. roperly regulated private agencies of course should be ontinued.

Efficiency of public employment offices should be increased.

Industrial Competition and Monopoly

Preservation of the American Individual Enterprise ystem is possible only if we have flexibility of business perations, continued investment, and effective competi-on throughout the economy. Every practice which adds gidity to the economic system, or curtails the freedom f investment, or imposes a burden of unnecessarily high rices on the consumer through the restriction or stifling

The successful working of our system requires much flexibility, continued investment, and effective competition.

of competition tends to undermine the efficient functioning of the economic system and works to the detriment of society as a whole.

Patents, copyrights, and exclusive franchises restrict competition, but for the public benefit and in accord with specific public policy.

In the cases of monopolies or semimonopolies created through the granting of patents, copyrights, or exclusive franchises, there is, in a strict sense, a restriction of competition, but it is a restriction designed for the benefit of the public and specifically provided as a matter of public policy. Through patents and copyrights original creative work is encouraged and society, as previous experience shows, gains thereby. Exclusive franchises are granted only where duplicating facilities would be an obvious waste or inconvenience and could serve no useful purpose. Through special regulatory commissions the public is protected against excessive charges by those concerns given exclusive franchises.

The problems involved in such monopolistic grants are mainly questions of extent and manner of regulation on principles largely accepted.

In the cases of both patents and copyrights, on the one hand, and exclusive franchises, on the other hand, there are constant problems. For example, there always is the question whether the patent and copyright laws give too little or too much protection to inventors, designers, and authors, and whether or not the laws are subject to abuse. Likewise there is always the question whether the special commissions regulating the activities of those operating under exclusive franchises are following sound principles, and whether the public might not obtain greater benefits if the regulatory commissions followed a different course. These problems, however, although of substantial importance, are outside the scope of the present discussion. They are related to the general problem of competition and monopoly, but they clearly are on the outskirts of that problem. In other words, patents, copyrights, and exclusive franchises represent restrictions of competition and the creation of monopoly or semimonopoly positions which the public has concluded are in its interest. The problems arising in connection with them, therefore, are merely those which have to do with assuring that the public will attain these anticipated benefits.

The real problem of competition and monopoly is found in quite a different area: where, legally, competition

supposed to rule but in practice is illegally curtailed or estricted or eliminated.

The real problem of monopoly is in the area where competition is supposed to prevail.

Such illegal curtailment or restriction or elimination f competition always is accomplished by a conspiracy in estraint of trade, using the term "conspiracy" in its roadest sense and including combinations as well as agreeents. Such conspiracies may occur at any stage in the roductive process, and they range in form all the way rom a mere informal "gentleman's agreement" to the ost formally drawn contracts and merging of ownership nd control. All of them, however, have one thing in ommon: they are designed to free the participants from e rigors of competition and thereby enable them to set rices for their goods or services in excess of those which ould prevail in a free competitive market.

Combinations or agreements that restrict competition are, as conspiracies in restraint of trade, contrary to the public interest.

Every such conspiracy is thus by its very nature ontrary to the public interest. There is no such thing as socially desirable conspiracy in restraint of trade. This equally true regardless of whether it is in industry, nance, agriculture, or labor, whether it is formed by rivate concerns acting individually or under the direction f government, and whether it is applied to the domestic r the foreign field.

All such conspiracies, regardless of scope or sponsorship, should be prohibited. We have ample legal authority for such prohibition in the antitrust acts.

A program for the future, therefore, needs only one ajor plank insofar as the basic problem of competition nd monopoly is concerned. This is that all conspiracies restraint of trade, regardless of their scope, their form, nd their sponsorship, must be prohibited. In the Sherman ntitrust Act of 1890 and the Clayton and Federal Trade ommission Acts of 1914 there is ample legal authority or keeping our economy free of such conspiracies. This oes not mean that these statutes are perfect as they stand. n the contrary, they badly need an overhauling with a iew to clarifying just what is to be considered a conspircy in restraint of trade, and in general to bringing them ore into harmony with modern conditions. It it not ecessary to go into these needed changes at this point. or the most part, they are of a highly technical nature; any event they are of only secondary importance to e basic need, which is to use the power already conferred y statute to prohibit all such conspiracies. The funda-

The laws require some clarification

and especially effective administration.

mental problem, in other words, in looking to the futu[r]e is to assure effective administration of the law. If we hav[e] that, our economy can be kept cleansed of such conspi[r]acies and gain the full benefit of competition. On the oth[er] hand, if we do not have effective administration, we sha[ll] lose the protection which society obtains from competitio[n] no matter how perfect the statutes themselves may be.

XXI

AMERICAN INDUSTRY AND THE FUTURE OF AMERICA

This book has aimed to explain our economic system, its principles, virtues, and defects, also proposals of substitutes.

IN this book earnest effort has been made to portray the Individual Enterprise System that developed in the United States during the first century and a half of our ational existence; not merely to describe its institutions nd the manner of their operation, but to formulate the asic principles that gave it character and efficiency.

This portrayal does not magnify the virtues of the ystem beyond their proven worth, nor does it fail to ote such defects as experience with the system has evealed. Some substitutes offered to our people during the reat depression have likewise been analyzed—substitutes erived from experience abroad or from deductive logic berally seasoned with sentiment.

Why the authors deemed necessary this defense of our enterprise system:

The examination of substitute proposals, indeed the ery writing of this book, was occasioned by deep appreensions lest the American people unwittingly allow their recious birthright to slip from their possession or to be raded for a "mess of pottage." During the past two decdes our private enterprise system has been subjected to iolent attack, by fair means and foul, in the open and he dark, from within and without, by government and rivate citizens, in the legislative hall and the court chamer, and by every known means of propaganda. By ontrast, its defendants have been timid and dilatory, less rticulate and positive, less numerous and diverse in class, acking in zeal and resourcefulness in fighting, perhaps ringing "too little too late" to the defense.

Persistent attacks have undermined confidence and faith.

This attack has been causing profound changes in merican thought and policy, and even in our institutions. robably the greatest damage wrought is the blasting of ur "rugged individualism," our sense of personal indeendence, self-reliance, and self-direction, our insistence n personal liberty, our faith in and our enthusiasm for our

traditional way of life. These are things of the spirit, an our old-time spirit is fleeing or has fled.

Nearly every page of this book drives home tl fundamental feature of our traditional enterprise systen namely, its individualism. At the threshold of our nation existence we solemnly asserted "the unalienable right t life, liberty, and the pursuit of happiness"; we fought tl Revolutionary War for that right, and adopted a Const tution to guarantee and perpetuate it. We became a natio of free men, equal men, not serving political masters bu ourselves, free to pursue our happiness without interfe ence from the state, with the greatest liberty of individu action ever known to man. Individuals, conscious c unbounded opportunity, inflamed by the love of achiev ment, inspired by the hope of profit, ambitious of tl comfort, power, and influence that wealth brings, turne with vim and vigor to producing and offering goods an services in freely competitive markets. The individu wanted little from the government beyond police protec tion while he confidently worked out his own destiny. B his vote he controlled the government and kept its powe minimal and decentralized.

Individual freedom is our tradition, and our economy was built on this basis.

But nowadays it is perhaps nostalgic to review ou national development and to revere the spirit and philo ophy of those who achieved it. Things are different. W are told that the system is a failure; that individual ente prise is in an advanced stage of decay and will inevitabl soon give place to a collectivist state; that we are now i a mature economy, with savings piling high in excess c the opportunities for private investment, a situation th can be cured only by government spending; that the li of private enterprise, in a modified ambiguous form, to b sure, can be protracted only by government "planning interference, subsidy, control, and direction, and b abandoning reliance on competition in free markets an the quest of profits as the director of the economy.

But we are told our system has failed.

A Political and Economic Revolution

Indeed, as we look about us, we realize that a politic revolution has occurred. Government functions an

We have been turning toward a new philosophy of government.

ctivities are greatly multiplied in number and kind, in niversality of application. Government is being centralzed, the localities and states losing powers to the federal uthorities. Constitutional guarantees are swept aside as horse-and-buggy" obstructions to progress. The executive branch of government is waxing in power, intimidatg both the legislature and the courts. Bureaus are ultiplied, which issue innumerable directives having the orce of law—a government of men replacing a governent of laws. The principles of the "leader" and totaliarian autarchy are gaining headway. These are but a few f the evidences of the transformation of our institutions nd philosophy of government.

And we have been substituting government for the market as regulator of our economic system.

In our economic system, the evidences of a profound evolution are even more numerous, ubiquitous, and notale. The individual no longer enjoys that personal liberty hew out his fortune untrammeled in a competitive orld. Instead of merely providing police protection for dustry, commerce, and agriculture, the government is business itself, as owner, producer, financier, distributor, eavy buyer, and storer. It competes unfairly with its itizens in enterprise, and taxes their output to cover its sses. It also exercises elaborate controls over private production, marketing, financing, and agriculture, and over bor, materials, and the location of industry. The effect to defeat the direction of industry by the forces of the ompetitive market and to substitute a direction by olitical officials. The government has adopted the role of welfare state" and declared its will to attain the "four reedoms," "full employment," and other grandiose bjectives. This it proposes to do largely by redistributing e wealth and income of its people. By heavily progresve taxation it deprives its successful citizens of their roduct and gives it to the less successful; thus it penalizes dustry, thrift, competence, and efficiency, and subsidizes e idle, spendthrift, incompetent, and inefficient. By espoiling the thrifty it dries up the source of capital, educes investment and the creation of jobs, slows down dustrial progress, and prevents society from attaining s highest level of consumption.

The attack on our traditional private enterprise

system runs not merely against the animating spirit c individualism, against the scheme of Jeffersonian democ racy aimed at preserving personal liberty, against tl happy balance of legislative, judicial, and executive pow framed in our Constitution, against equality under tl law, against the narrow limitation of government power it strikes as well at the basic principles of individual ente prise; at the capitalist who provides the sinews, initiativ and leadership in the economic world; at the profit whic incites him to venture, explore, research, invent, exper ment, and invest and which guides those ventures in tl channels most helpful to mankind; at the thrift which indispensable to the accumulation of capital; at the dete mination of the value of goods and services by imperson forces in a free market; and at the equality of opportunit of each and all to offer their goods and services in fr markets.

Individual enterprise and the qualities involved have been discounted.

In lieu of these items, which together have bee called the "American Way of Life," the trend is to substi tute statism. This means among other things the ascenc ancy of the government over the individual; the reductio of personal liberty to such ambits as are deemed consonar with the purposes of the governing group; the determina tion of the character, quantity, and timing of industry an commerce by a central authority; the distribution c national income according to formulas devised by gover ment functionaries; and the active participation c government in industry and commerce as owner, operato and regulator. Statism takes variant forms and name such as communism, socialism, fascism, and nazism. Tl American brand is called "government planning." Bı whatever its form or name, the ingredients are the sam and the trends are the same; *i.e.,* toward greater dominanc of the State in the economic, social, and political life c the people, ending in the autarchic or totalitarian systen

The trend has been toward "statism" through "government planning."

Dangers of the Current Trend

It is perhaps not necessary that the current America trends issue in autarchy. Great numbers of our people ar however, not at all sanguine that they can be stopped c

eversed. There is a growing feeling of fatalism that our rivate enterprise system is doomed.

The challenge of "full employment" is used to promote government planning.

Government planning "makes the meat it feeds on." he favorite challenge is that unless business provides an rbitrarily stated volume of employment, at arbitrarily ated wage rates and according to other standards deemed tisfactory to the public official, the government will do . This means that private enterprise will be replaced by a ate-planned, -controlled, -subsidized, and even -owned nd -operated economy. The challenge is formulated and oiced by persons known more for wishful thinking than or economic or industrial competence, and not too much ttention is paid to the economic possibilities of meeting his challenge. Nor is it recognized that the Individual nterprise System should be judged not merely by the mount of employment it affords but also by the standard f living and other measures of welfare it provides. Every otion made by the state—by planning, regulating, taxing, r otherwise—tends to lessen the possibility of industry's eeting the challenge.

In a "mixed economy" competition of state and private enterprise must ruin private enterprise.

It is doubtful that we can stop with a mixed conomy, part government and part private enterprise. ur country a century ago found that it could not ontinue to exist half free, half slave. The competition of ate and private enterprise must end in ruin of the latter. ur "private enterprise system and our American form of overnment are inseparable and there can be no compro- ise between a free economy and a governmentally ictated economy without endangering our political as ell as our economic freedom." In proportion as govern- ent dictates our economy both civil and economic liberty isappear. As we substitute for economic judgment of the dividual the judgment of a government official or ureaucrat and force the individual to accept that substi- ition, our system of private enterprise takes accelerated xit. The hand, mind, and will of the enterpriser will be aralyzed when the bureaucrat imposes his will, backed y the force of law and the use of public funds.

Security is no substitute for freedom.

The tempting bait offered by "government plan- ers" is "economic security," "freedom from want," certainty of job." These are very appealing in a world

of change such as we have had since 1929. But sober jud; ment tells us that no amount of security can compensa for the sacrifice of personal economic and political fre dom. The economic security, freedom from want, aı certainty of job under statism are too likely to be tho of the slave.

In human affairs it is foolish to make forecasts (the basis of current trends and to declare that such aı such outcomes are inevitable. Perhaps, if we could cor prehend all the forces at work, their relative importanc and the multitudinous repercussions of the one upon t other, we could forecast with the precision of inevitabilit but such comprehension is far beyond the mind of ma Economic history is strewn with forecasts that did n prove right although the forecasters pronounced the "inevitable." For example, Karl Marx forecast that cap talism would shortly collapse, through the progressi impoverishment of the middle class, whereas it grew strength and inclusiveness for a century after, and eve class—high, middle, and low—gained in economic aı social welfare. For us to forecast, on the basis of t apparent current evolution in social, economic, and poli cal conditions, that individual enterprise is doomed, th its diseases are incurable, and that the trends are irresis ble and irreversible may prove equally erroneous.

Public policy rather than economic necessity would be responsible for breakup of our economic system.

If the demise of private enterprise does occur, it w be the result of the deliberate or unwitting policy of o people rather than of economic necessity. The issue will determined not by the innate characteristics of techn logical development, the maturity of the economy, or t superiority of mind of government planners over t minds of businessmen, as is sometimes alleged. It will con rather by the deliberate adoption of government extrav gance, ruinous taxation, throttling regulation, centralizi of political authority, minimizing of profits, excessi expenditures for social security, or other governme policies that are incompatible with private enterprise.

The likelihood of our resorting to such destructi policies and of continuing them until private enterpr expires is, of course, enhanced by certain factors: (1) th for over a decade now these policies, in spite of th

nanifest failure, have been popular with our people and iave gained in scale and universality of use; (2) that the ;eneration of young people now taking charge of things ias been thoroughly inoculated and educated in this kind of economic and political philosophy, has had little if any xperience under real private enterprise, and has been aught to look at capitalism as effete and undesirable; 3) that vociferous groups of the "intelligentsia"—many vith rank pretense rather than training or authority to rate in this matter—have joined in the chorus of criticism of private enterprise and espoused the new ideology as the vay out of the present difficulties; (4) that before the ecent war the governments of Europe, even of Great Britain, as well as governments in other parts of the world, ntervened deeply into economic activities, some states even ecoming totalitarian; and (5) that in the postwar period t may seem difficult for our country in the midst of a vorld of totalitarian states to stick rigidly to private enterprise and meet their competitive and other pressures.

Many factors are operating to push public policy in this direction.

Private enterprise in America had a narrow escape n the great depression of the thirties; its survival after the ong and comprehensive subjection to the state in the ecent war period will require great efforts—particularly f, as many believe, the aftermath of the war involves an ntense economic depression of world-wide proportions. Even if private enterprise does survive, it is too likely to e robbed of that fulness of personal liberty that makes it herished and efficient.

Encouraging Factors

The traditional American Individual Enterprise ystem can, however, be saved, restored to vigor, and perpetuated. It is contrary to the quondam spirit of our people o be pessimistic very long, to wallow helplessly in despair, nd to confess to doom. It is our genius, rather, to jeer at vhat Cassandras call predestined and inevitable necessity, o ridicule what faint hearts regard as impossible, and to old that nothing is beyond attainment once we set our nind, will, talents, and tireless industry at doing it. It is his optimistic, confident animating principle that has

Yet the spirit of our people is fundamentally optimistic.

characterized our people and led to the triumphant succe of the American Way of Life. The "man from Mars" mu view with sardonic humor the recent efforts of pessimis to persuade the American people that we have reached an passed the pinnacle of our national economic developmen that we now have a "mature economy," doomed eternall to stagnate, not even able to hold our own and stay whe we are! He knows, and we know, that that is not Americ

We cherish our freedom.

Our individual enterprise system can be saved, an anyone with real blood in his veins will lend a ready han in its salvation, for he knows that it must be saved if w are to retain what is near and dear to us; if we want system that is based on the dignity of the individual rath than utter surrender to the will of the state, and th will give our offspring the untrammeled opportunity c their fathers and grandfathers; and if we are to exten our horizons of comfort, personal liberty, and peace an to enjoy the dozen "freedoms" we all crave.

Leadership can rally public opinion to the preservation of our heritage.

What we need are things of the spirit. We must, i our robust traditional way, rise from the slough of despai throw off the spell of "stagnation" doctrine, put on th armor of courage and dauntless zeal, strike down the ba riers of bureaucracy, and disembowel the dragon of statisı in its lair. Individual enterprise can be saved by refurbish ing our ideas. It can be saved by rallying public opinio in favor of the restoration and preservation of our heritag by having our intellectual and moral leaders reaffirm the allegiance to our traditional economic and political systen by discarding policies inimical to private enterprise, b removing war controls, and by reawakening a zealous spir of initiative and willingness to take economic risk fo profit.

All this is possible—the Individual Enterprise Syster can be saved. Quite likely our present pessimism is extrem and not really warranted by the facts, if we could bu know and interpret them aright. Pain and fear do distor judgment. One remembers the bad estimate made by th prophet Elijah. That refugee, in the depth of depressio was telling the Lord God of Hosts that the children c Israel had deserted him and had slain his prophets, so th "I, even I only, am left"; but the Lord assured Elijah th

ıere were still seven thousand Israelites steadfast in the ıith.

Probably our present pessimistic estimates of the ıpporters of private enterprise are similarly mistaken. urveys do not reveal how our people really feel. Millions f them deep down in their hearts dislike to be doing the ıings they are doing. Many a farmer revolts at taking pay or wheat he does not raise; many a wage earner joins in strike that he regards as inequitable; many a manufacurer feels ashamed when his government subsidy check rrives; many a city mayor finds it repugnant to hold out is tin cup to the federal Treasury; many a bureaucrat sues directives which he feels Congress ought to consider nd enact instead. These millions have not really changed t heart, they are still believers in the traditional American Vay of Life and long for its return. They see firsthand ow, under statism, success hangs on personal favor rather ıan competence and output, how public office goes to arty servants regardless of training, experience, and fficiency, how the richly deserved and indispensable profits f enterprisers are taken by discriminatory taxes and vasted by bureaucrats who know literally nothing about ıe operation of industry and commerce. Against all this ıey revolt but, in order to live and get on, they must ooperate with the system imposed from above.

Public resentment of economic controls and bureaucratic rule is stronger than appears on the surface.

If the question of the restoration of the private nterprise system were submitted to the voting electorate f our country, there seems to be no question that it would e restored forthwith. Every public-opinion poll taken in ecent years indicates that the vast majority of the Amerian people believe in the basic principles of free enterprise. n the 1944 election both candidates for the presidency felt onstrained to make unequivocal declarations that they elieved fully in free enterprise.

The tremendous achievements of free enterprise in roducing the munitions of war have convinced most oubters of the capacity of our profit system. The low cale of operation which prevailed in American industry hroughout the 1930s helped critics purvey the notion hat our system was *passé*. Our industrial leaders have, owever, shown incomparable imagination, invention,

War achievements have increased confidence in the capacity of our system.

leadership, and power at organization; and our worker unsurpassed ability and skill in using machines. Americ deserves the epithet "arsenal of the world," which b common acclaim the Allies accorded her. Even Stali premier of a statist system, declared at Teheran that th military victories of the United Nations could not hav been won without the goods so bounteously produced an distributed by American free enterprise.

Farmers are strong individualists.

The farmers of the United States believe in fr enterprise. They have been in constant revolt against th restrictions of the AAA. In America, as in Russia, no doub the individualism of the farmers would make them th most refractory and recalcitrant group to sovietize.

Returning veterans will not want American system uprooted.

Judged by reports of newspapermen, Congressme and others who visited our armed forces across the sea, well as by conversations with the returned veterans, th great majority of the returning veterans will oppose go ernment control of our entire economy. They will hav come into intimate contact with various types of statis and will know how superior and more abundant are th benefits of the American system over those of any oth nation in the world.

Congress is showing impatience of executive domination and centralized authority.

Finally, the Congress of the United States is increa ingly indicating that it will insist on its prerogatives an its position as a coordinate part of the government. Th usurpation of legislative power by the executive branc of our federal government has finally aroused our legi lators to assert their independence. If this spirit develop it will frustrate the current practice of substituting execu tive directives for statutory law, of government by me for government under law; it will be most salutary i restoring our democratic process and in staying the tren toward centralization and statism.

Thus, all summed, perhaps the number of perso who can be rallied to support the restoration of effecti private enterprise will be, as in Elijah's case, seven thousan times as great as we may in our present depression estimat

Even in a sea of totalitarianism this nation could

It is possible that the United States may become a island of free enterprise in a sea of totalitarianism. Eve if that happens, the United States need not go totalitarian her domestic economy can surely continue on a free-ente

rise basis, and it is foolish to believe that the totalitarian orld would not depend upon our foreign trade quite as uch as in freer times. Indeed the scale of living in ountries that went totalitarian would decline, not merely ecause of any paring of foreign trade that might occur, ut more particularly on account of the inherent ineffi- encies of their economic systems. They will, moreover, irely return, either gradually or suddenly, toward the rinciples of free enterprise, and any such return on their art will exercise a powerful influence on trends in the nited States. Soviet Russia has already taken many signifi- ant steps toward adopting some of the major principles f free enterprise.

maintain free enterprise and demonstrate its superior efficiency.

The American enterprise system faces great difficul- es in the aftermath of the war, but its demise is far from evitable. It can survive despite the domestic and inter- ational problems that will exist. The Individual Enterprise ystem is not a delicate flower which is unable to stand ock and which has to be protected against every ill wind at blows. On the contrary, it is an extraordinarily vigor- us system. It had its origin a century and a half ago under orld conditions that were almost as disorderly as those f today, and it took root in the face of governmental terference and a volume of regulations as bad as anything e now have. It is true that it was not able to reach its ill development while these conditions prevailed, but this oes not lessen the importance of the fact that it lived rough those bad times and grew steadily.

The vigor of our system has been proved under adverse conditions, and no other system has conferred equal benefits.

So it needs to be emphasized and borne in mind, in inking of the future of the Individual Enterprise System at, unfavorable as present conditions are, the outlook eed not be entirely black. The system can take an enor- ous amount of pounding and of restriction and still emain in existence; and even in this bruised and bound ate it can confer greater benefits upon mankind than has ny other economic organization yet devised.

As We Look Forward Rather than Backward

Much will depend upon the extent of government egulation to which the economic system will be subjected

We must face increasing regulation but need not regard indefinite continuance of the trend inevitable.

in future years. We may never again within our time s in this country a period so free from regulation as th preceding the depression of the 1930s. The American ec nomic system has now developed to a point where t people insist that the government, in the performance its function, may legitimately be called upon to step in many more places than formerly were deemed necessary.

Government Regulation

All of our thinking for the future, therefore, mu be based upon the underlying thesis that our econon henceforth may continue to be subject to more or le extensive governmental regulation. This does not mea that the present trend of ever-increasing regulation nece sarily will be continued. And certainly it does not mea that the government will continue to try to bring busine more and more under its direct control under the guise regulation. In fact, it is quite possible that in the yea to come there will be a reversal of these trends and we sha have substantially less regulation and governmental contr of business than at present. This would be a normal pos war development. During times of emergency the publ accepts a vast volume of control and regulation as essenti and desirable. But, by and large, when the emergency over, the people expect, and in fact demand, a restoratio of the government to its more normal limits of activit This was true following World War I and it probab will be true again, in spite of the fact that the milita program cemented an enormous volume of regulation in our economic fabric, and in spite of the further fact th the attitude of the present Administration toward regul tion is vastly different from that of the Wilson Admini tration in World War I. However, it is probable that ar revulsion against postwar regulation will not carry f enough to return to the conditions of the 1920s.

Business leaders should adjust themselves to this condition

It is desirable, therefore, that business should lea to live with reasonable government regulation and use i influence merely to keep such regulation in proper boun and truly in the interest of society as a whole and not f the benefit of any specialized group. With study, foresigh

nd wisdom on the part of our business leaders, this can be one; and, although we may have a quite different eco- omic system from what we have had in the past, it will e a much better economic system than would exist if usiness merely fought all government regulations and left ne drafting of the statutes and orders to those who neither nderstand, nor have any basic sympathy with, the func- oning of individual enterprise.

and use their influence to keep the trend within reasonable bounds.

ocial Security

Among the broad changes that must be considered or the future is also the government's responsibility for king care of the more unfortunate members of our social ganization. Here, too, plans must be made on the sumption that the future may be quite different from ne past. The difference is not that as a nation we are going ownhill, but rather that, with the growth of our popula- on and the development of our country, some of our oblems no longer lend themselves so well to the old lutions. Further, the American public is overwhelmingly the opinion that government, either federal or state, has distinct responsibility for protecting the welfare of those ho are unable to take care of themselves. And in a democ- cy such a public attitude means that the responsibility as to be accepted by the government.

The public, for example, demands that government take responsibility for an increasing measure of social aid and protection.

We shall probably have in the years to come, there- ore, continued administration of social aid by the federal nd state governments and perhaps even a broadening of ne coverage of such government aid. We must expect to ontinue to have taxation for this purpose, although the ggregate burden, if prosperity is sustained through a storation of opportunity for individual enterprise, can e considerably reduced from the fantastic estimates that re frequently advanced as necessary.

Businessmen, then, should plan on a continuation of ich legislation, and it will be to their advantage to accept ich legislation in good faith, to use their influence to keep ne promises within the limits of possible fulfillment, and see that the plans which are adopted actually improve onditions rather than create worse problems than they

Businessmen should adjust their plans to this prospect and cooperate in improving

the character of such government action to serve this purpose.

cure. And businessmen should use their influence also prevent the perpetuation of situations which constitute constant drag on the economy. The maintenance of unec nomic mines and submarginal farms offers two outstandi examples. No one properly can object to the governmen meeting its legitimate responsibility in taking care of t unfortunate members of society, but continuing the su port of such situations as these cannot be justified on soci economic, or ethical grounds.

Increased Rigidity of Wages

The accumulated rigidities in our system have complicated the employment problem.

One further observation in connection with th "social planning" by the government needs to be mad Although flexibility of wage scales would undoubted contribute to a high level of employment, wage rates a likely to be less flexible in the future than they were in t past, because rigidities have now been frozen into our leg and administrative structures. Moreover, even if we h such flexibility, it probably could not by itself solve t unemployment problem. As indicated earlier, many oth rigidities also have crept into our economic system.

Stabilization of Employment

Businessmen must seek new preventives of widespread unemployment that will avert excessive government interference with the management of business and operate within the economic framework as they find it.

A solution for the unemployment problem, ther fore, needs to be looked for in other directions. And it imperative to bear the importance of the problem in min It is probably not too strong to say that the very futu of the Individual Enterprise System depends upon t working out of a satisfactory solution of the unemplo ment problem. The American public is convinced th prolonged periods of large unemployment are unjust a unnecessary. And it is convinced that, if the Individu Enterprise System cannot eliminate the necessity of havi millions of workers made idle over long periods of tim there is something inherently wrong in either the structu of this system or its operation, and that a change is nece sary—a change which probably would be in the directi of increased government participation in the manageme of business.

In looking to the future, therefore, individu

nterprise must not only tell the public and its representa-ives in government what steps are necessary to prevent :apital from becoming idle and thus prevent men from ›eing idle, but it must also develop within the economic ramework, created or permitted by government, a pre-'entive of widespread unemployment; it must increase and egularize employment within a framework of a possibly ather high degree of rigidity of wages and perhaps of ncreasing labor unionization. This will not be an easy ask. But this difficulty must not be permitted to stand in he way of finding a solution. The price of failure is too ;reat for the problem to be dodged.

The Promise of the Future

Unless the American Individual Enterprise System ; hamstrung by needless bureaucratic regulation and nbearable governmentally imposed burdens, it can more han hold its own in the postwar period. It is true that we re faced with tremendous problems, but neither indi-'idually nor in the aggregate are they insoluble. With wise conomic statesmanship and constructive policies on the art of government, business, and other elements of our ›ciety—that is, with a return to real liberalism of the haracter enunciated in the Roosevelt-Churchill Atlantic Charter—there is every reason to have confidence that we hall be able to get the system back on a prosperous footing –back to the point where the public regards it as the reator of individual opportunity and common welfare, ot the breeder of distress and insecurity. Man is still the naster of his own destiny and world trends are merely nan-made trends. The future depends solely upon the ourage, the ability, and the foresight with which we meet he problems that confront us.

The postwar period presents tremendous but not insoluble problems.

We have an opportunity to get the American Individual Enterprise System on a prosperous footing, where it will be regarded as the best creator of individual opportunity and common welfare.

In this book we have portrayed the nature and roblems of the American Individual Enterprise System nd have suggested how its operations may be improved ; a part of the American Way of Life.

APPENDIX

FOR CHAPTER XV, TRENDS IN PUBLIC FINANCE

SECTION A

TABLE A-1.—FEDERAL EXPENDITURES AND REVENUES, 1789–1913[1]
(In millions of dollars)

Fiscal years	Expenditures				
	Civil, excluding interest	Army and Navy	Pensions	Interest	Total
1789–1791	1.1	0.6	0.2	2.3	4.3
1792	0.7	1.1	0.1	3.2	5.1
1795	1.5	2.9	*	3.2	7.5
1800	1.4	6.0	*	3.4	10.8
1805	4.0	2.3	*	4.1	10.5
1810	1.4	3.9	*	2.9	8.2
1812	2.1	15.8	*	2.5	20.3
1813	2.0	26.1	*	3.6	31.7
1814	2.5	27.7	*	4.6	34.7
1815	3.5	23.5	*	5.8	32.7
1820	2.9	7.0	3.2	5.1	18.3
1830	3.9	8.0	1.4	1.9	15.1
1835	5.9	9.6	2.0	*	17.6
1836	10.0	18.0	2.9	...	30.9
1837	14.2	20.3	2.7	...	37.2
1840	8.3	13.2	2.6	0.2	24.3
1850	16.6	17.3	1.9	3.8	39.5
1859	27.3	37.9	1.2	2.6	69.0

	Revenue			
	Customs	Internal revenue	Miscellaneous	Total
1789–1791	4.4	...	*	4.4
1792	3.4	0.2	*	3.7
1795	5.6	0.3	0.2	6.1
1800	9.1	0.8	1.0	10.8
1805	12.9	*	0.6	13.6
1810	8.6	*	0.8	9.4
1812	9.0	*	0.8	9.8
1813	13.2	*	1.1	14.3
1814	6.0	1.7	3.5	11.2
1815	7.3	4.7	3.8	15.7
1820	15.0	0.1	2.8	17.9
1830	21.9	*	2.9	24.8
1835	19.4	*	16.0†	35.4
1836	23.4	*	27.4†	50.8
1837	11.2	*	13.8†	25.0
1840	13.5	*	6.0†	19.5
1850	39.7	...	3.9	43.6
1859	49.6	...	3.9	53.5

SOURCE: Secretary of the Treasury, Annual Report.

[1] Because of rounding off figures, totals will not check in all cases.

* Less than $100,000.

† Sales of public land were unusually large in these years.

Table A-1.—Federal Expenditures and Revenues, 1789–1913—(*continued*)
(In millions of dollars)

Fiscal years	Expenditures				
	Civil, excluding interest	Army and Navy	Pensions	Interest	Total
1860	30.9	27.9	3.2	1.1	63.1
1861	26.1	35.4	4.0	1.0	66.5
1862	23.7	437.0	13.2	0.9	474.8
1863	26.4	662.5	24.7	1.1	714.7
1864	30.1	776.5	53.7	5.0	865.3
1865	49.9	1,153.9	77.4	16.3	1,297.6
1866	44.4	327.8	133.1	15.6	520.8
1870	72.6	79.4	129.2	28.3	309.7
1880	63.5	51.7	95.8	56.8	267.6
1890	108.4	66.6	36.1	106.9	318.0
1895	103.2	80.6	31.0	141.4	356.2
1898	107.5	150.8	37.6	147.5	443.4
1899	132.0	293.8	39.9	139.4	605.1
1900	149.1	190.7	40.2	140.9	520.9
1901	147.8	205.1	32.3	139.3	524.6
1902	137.6	180.1	29.1	138.5	485.2
1910	198.6	313.0	21.3	160.7	693.6
1913	191.1	335.4	22.9	175.1	724.5

	Revenue			
	Customs	Internal revenue	Miscellaneous	Total
1860	53.2	.....	2.9	56.1
1861	39.6	.....	1.9	41.5
1862	49.1	.....	2.9	52.0
1863	69.1	37.6	6.0	112.7
1864	102.3	109.7	52.6	264.6
1865	84.9	209.5	39.3	333.7
1866	179.0	309.2	69.8	558.0
1870	194.5	184.9	31.8	411.3
1880	186.5	124.0	23.0	333.5
1890	229.7	142.6	30.8	403.1
1895	152.2	143.4	29.1	324.7
1898	149.6	170.9	84.8	405.3
1899	206.1	273.4	36.4	516.0
1900	233.2	295.3	38.7	567.2
1901	238.6	307.2	41.9	587.7
1902	254.4	271.9	36.2	562.5
1910	333.7	289.9	51.9	675.5
1913	318.9	344.4	60.8	724.1

TABLE A-2.—PER CAPITA FEDERAL EXPENDITURES IN THE UNITED STATES

By Decades	Per Capita Expenditure
1791–1800	1.25
1801–1810	1.45
1811–1820	2.84
1821–1830	1.44
1831–1840	1.64
1841–1850	1.69
1851–1860	2.20
1861–1870	14.89
1871–1880	6.04
1881–1890	4.75
1891–1900	5.91
1901–1910	7.27

By Fiscal Years	Per Capita	By Fiscal Years	Per Capita
1911	7.36	1929	27.09
1912	7.24	1930	27.95
1913	7.45	1931	29.44
1914	7.42	1932	36.33
1915	7.56	1933	30.77
1916	7.20	1934	47.57
1917	19.15	1935	55.09
1918	123.03	1936	67.67
1919	177.16	1937	63.48
1920	60.14	1938	55.76
1921	47.13	1939	66.53
1922	30.64	1940	68.19
1923	29.43	1941	95.42
1924	26.72	1942	240.57
1925	26.44	1943	572.75
1926	26.39	1944	678.80
1927	24.98	1945	717.18
1928	25.75	1946	431.00

SOURCE: U. S. Treasury expenditure figures; debt retirement excluded.

TABLE A-3.—FUNCTIONAL DISTRIBUTION OF FEDERAL EXPENDITURES, 1921–1946
(In millions of dollars)

Fiscal year	National defense	Relief and work relief	Aid to agriculture, excluding loans	Public works, excluding loans	Veterans Administration	Interest on the federal debt	General government	Cost of government	Loans	Total
1921	2,691	....	58	144	609	999	493	4,994	5*	4,98
1922	844	....	48	165	674	991	396	3,118	94	3,21
1923	829	....	47	155	734	1,056	330	3,151	97*	3,05
1924	711	....	53	187	646	941	313	2,851	41*	2,81
1925	649	....	54	204	713	882	341	2,843	41*	2,80
1926	611	....	57	186	742	832	371	2,799	20*	2,77
1927	612	....	63	188	748	787	363	2,761	24*	2,73
1928	662	....	71	200	752	732	385	2,802	3*	2,79
1929	694	....	71	242	770	678	490	2,945	12	2,95
1930	730	....	84	267	793	659	463	2,996	156	3,15
1931	734	...	95	397	953	612	533	3,324	236	3,56
1932	752	31	114	450	985	599	680	3,611	1,029	4,64
1933	679	80	73	442	863	689	516	3,343	1,268	4,61
1934	531	1,871	364	549	557	757	550	5,180	2,182	7,36
1935	689	2,321	881	679	607	821	463	6,461	3,277	9,73
1936	900	2,337	825	685	2,351	749	572	8,419	679	9,09
1937	929	2,548	922	803	1,137	866	630	7,835	81*	7,75
1938	1,029	2,176	804	649	582	926	632	6,798	179	6,97
1939	1,206	2,944	1,159	872	557	941	656	8,335	26	8,36
1940	1,657	2,301	1,491	866	557	1,041	718	8,631	193	8,82
1941	6,301	2,161	1,208	709	563	1,111	683	12,736	1,126	13,8
1942	26,011	1,709	1,141	659	556	1,260	727	32,062	1,918	33,9
1943	72,109	894	1,029	535	602	1,808	769	77,746	1,859	79,6
1944	87,039	614	940	425	730	2,609	878	93,235	1,894	95,1
1945	90,029	567	834	319	2,060	3,617	1,019	98,444	83*	98,3
1946	48,452	670	1,110	389	4,253	4,722	1,453	61,138	364*	60,7

* Excess of credits, deduct.

SOURCE: Treasury Department, Bureau of the Budget. (See N.I.C.B., *Economic Almanac*, 1946–1947.)

Table A-4.—Governmental Expenditures in the United States for Selected Years, 1925–1944[1]

Year	Federal per cent of total	State per cent of total	Local per cent of total
1925	28.4	15.1	56.5
1928	25.5	16.2	58.3
1930	26.4	18.2	55.4
1931	28.7	18.5	52.7
1932	33.8	17.2	49.0
1933	33.6	18.3	48.1
1934	43.7	15.0	41.3
1935	46.2	14.9	38.9
1936	50.6	14.3	35.1
1937	48.8	16.6	34.6
1938	44.1	19.8	36.1
1939	47.6	19.8	32.5
1940	48.0	19.7	32.3
1941	56.3	15.6	28.1
1942	79.3	8.5	12.2
1943	90.5	4.0	5.5
1944	92.0	3.6	4.4

[1] Grants-in-aid are counted as expenditures of the first disbursing government.

Source: Secretary of the Treasury, Annual Report; Bureau of the Census, *Financial Statistics of States;* Tax Foundation, *Tax Facts ıd Figures*, 1941; N.I.C.B. *Economic Almanac.* See "Federal, State, and Local Government Fiscal Relations," Senate Doc. No. 69, ›th Congress, 1st Session, p. 358.

Note: Different compilations from the same original sources, combining items in different ways, are often responsible for screpancies in tables especially prepared or based on secondary sources. Any such discrepancies found between the tables in this ppendix, or between the tables and the related text, are not sufficient, however, to affect the trends the tables are intended to show.

SECTION B

Table B-1.—Federal Revenues by Sources, Fiscal Years 1914–1946
(In millions of dollars)

Fiscal Year	Individual income tax[1,2]	Corporation taxes: Income tax	Corporation taxes: Excess-profits tax[1]	Corporation taxes: Capital stock tax	Corporation taxes: Total[1]	Social security taxes[3]	Estate and gift taxes	Liquor taxes	Tobacco taxes	Manufacturers' excises[4]	Customs	Other taxes[5]	Total taxes[1]	Less refunds	Less transfers to soc. sec. trust accounts	Net tax revenue[1]	Nontax revenue[6]	Total federal revenue[1]	Amounts due on income earned in the calendar years 1916–1924: Total	Income	Excess-profits	Individual income
1914	.....	71	.....	...	71	....	...	226	80	....	292	7	7	9	....	667	41	709	....	...	....	...
1915	.....	80	.....	...	80	....	...	224	80	....	210	35	629	14	....	615	54	669	....	...	....	...
1916	68	57	.....	...	57	....	...	247	88	4	213	52	730	22	....	708	35	743	345	172	....	173
1917	180	207	*	10	217	....	6	248	103	1	226	57	1,039	24	....	1,015	62	1,077	2,938	504	1,639	795§
1918	.....	2,852†	.....	25	....	....	47	444	156	37	180	371‡	3,371	19	....	3,352	267	3,618	4,286	653	2,506	1,128
1919	.....	2,601†	.....	29	....	....	82	483	206	76	184	842	4,504	22	....	4,482	621	5,102	3,445	744	1,432	1,270
1920	.....	3,957†	.....	93	....	....	104	140	296	268	323	555	5,735	46	....	5,689	920	6,609	2,700	637	989	1,075
1921	.....	3,228†	.....	82	....	....	154	83	255	229	309	631	4,971	54	....	4,917	617	5,533	1,421	366	335	917
1922	.....	2,087†	.....	81	....	....	139	46	271	174	356	483	3,637	83	....	3,554	404	3,958	1,645	775	8	861
1923	.....	1,691†	.....	82	....	....	127	30	309	185	562	220	3,206	154	....	3,052	712	3,764	1,599	937	....	662
1924	.....	1,842†	.....	87	....	....	103	28	326	201	546	222	3,354	148	....	3,207	571	3,777	1,586	882	....	704
1925	845	916	.....	90	1,006	....	109	26	345	141	548[4]	125	3,145	171	....	2,974	533	3,507	....	...	....	....
1926	879	1,095	.....	97	1,192	....	119	26	371	150	579	107	3,425	210	....	3,215	432	3,647	....	...	....	....
1927	912	1,308	.....	9	1,317	....	100	21	376	67	606	85	3,483	138	....	3,345	528	3,873	....	...	....	....
1928	883	1,292	.....	9	1,301	....	60	15	396	52	569	95	3,371	170	....	3,201	539	3,741	....	...	....	....
1929	1,096	1,236	.....	6	1,242	....	62	13	434	6	602	95	3,549	213	....	3,337	356	3,693	....	...	....	....
1930	1,147	1,263	.....	*	1,263	....	65	12	450	3	587	110	3,637	158	....	3,479	411	3,890	....	...	....	....
1931	834	1,026	.....	...	1,026	....	48	10	444	*	378	72	2,813	91	....	2,722	286	3,008	....	...	....	....
1932	427	630	.....	...	630	....	47	9	399	*	329	54	1,895	101	....	1,793	111	1,905	....	...	....	....
1933	353	394	.....	...	394	....	34	43	403	244	252	140	1,863	70	....	1,793	217	2,009	....	...	....	....
1934	420	398	3	80	481	....	113	259	425	358	315	591	2,961	64	....	2,897	155	3,052	....	...	....	....
1935	527	572	7	92	671	....	212	411	459	342	345	662	3,628	76	....	3,551	173	3,724	....	...	....	....
1936	674	739	15	95	849	*	379	505	501	383	388	224	3,903	54	....	3,849	213	4,062	....	...	....	....
1937	1,092	1,057	25	137	1,219	266	306	594	552	450	488	120	5,086	56	265	4,765	208	4,973	....	...	....	....
1938	1,286	1,300	37	139	1,476	743	417	568	568	417	361	202	6,037	100	533	5,404	204	5,609	....	...	....	....
1939	1,029	1,123	27	127	1,277	740	361	588	580	397	321	192	5,484	68	610	4,806	184	4,990	....	...	....	....
1940	982	1,121	18	133	1,272	883	360	624	608	447	350	178	5,703	91	703	4,910	266	5,175	....	...	....	....
1941	1,418	1,852	192	167	2,211	994	407	820	698	617	393	266	7,824	90	854	6,880	820	7,700	....	...	....	....
1942	3,263	3,069	1,670	282	5,021	1,270	433	1,048	781	852	390	411	13,469	94	1,090	12,285	275	12,560	....	...	....	....
1943	6,630	4,521	5,146	329	9,996	1,601	447	1,423	924	670	324	557	22,573	79	1,416	21,078	904	21,982	....	...	....	....
1944	18,261	5,284	9,482	381	15,147	1,860	511	1,619	988	729	431	2,693	42,239	267	1,643	40,329	3,278	43,008	....	...	....	....
1945	19,034	4,880	11,147	372	16,399	1,779	643	2,310	932	1,207	355	1,732	44,391	1,715	1,724	40,953	3,471	44,424	....	...	....	....
1946	18,705	4,640	7,914	352	12,906	1,830	677	2,526	1,166	1,415	435	1,218	40,877	3,034	1,619	36,224	3,478	39,702	....	...	....	....

1 Includes taxes refundable after the war. 2 Includes Victory tax. 3 Includes Carriers' Act taxes and deposits by Railroad Retirement Board on daily Treasury statement basis. 4 Includes consumers', dealers', and retailers' excise taxes. 5 Includes adjustment of internal revenue collections to daily Treasury statement basis. 6 Includes nonrevenue receipts other than receipts from public debt sales. * Under $500,000. † Collections of corporation income, excess-profits, and individual income taxes are not available separately for the fiscal years 1918 through 1924. However, the above table, based on a compilation of unaudited tax returns, shows the amounts due on income earned in the calendar years 1916 through 1924. ‡ Excess of credits, deduct. The negative revenue figure results because of a $13 million dollar credit adjustment from collections basis to daily Treasury statement basis. §Includes war excess-profits taxes of 101.2 million dollars on individuals and 103.9 million on partnerships. Source: *Economic Almanac*, [illegible] Budget. Note: Individual income-tax figure for 1917 includes war excess-profits taxes of 101.25 million dollars on individuals and 103.888 million on partnerships.

TABLE B-2.—FEDERAL REVENUE BY SOURCES
(Per cent of total taxes)

Fiscal year	Individual income tax[1,2]	Corporation taxes: Income tax	Corporation taxes: Excess-profits tax[1]	Corporation taxes: Capital stock tax	Corporation taxes: Total[1]	Social security taxes[3]	Estate and gift taxes	Liquor taxes	Tobacco taxes	Manufacturers' excises[4]	Customs	Other taxes[5]	Total taxes[1]
1914	....	10.5	....	...	10.5	....	...	33.4	11.8	....	43.1	1.1	100.0
1915	....	12.7	....	...	12.7	....	...	35.6	12.7	....	33.4	5.6	100.0
1916	9.3	7.8	....	...	7.8	....	...	33.8	12.1	0.5	29.2	7.1	100.0
1917	17.3	19.9	*	1.0	20.9	....	0.6	23.9	9.9	0.1	21.8	5.5	100.0
1918	....	84.6†	....	0.7	....	....	1.4	13.2	4.6	1.1	5.3	−11.0‡	100.0
1919	....	57.7†	....	0.6	....	....	1.8	10.7	4.6	1.7	4.1	18.7	100.0
1920	....	69.0†	....	1.6	....	....	1.8	2.4	5.1	4.7	5.6	9.7	100.0
1921	....	65.0†	....	1.6	....	....	3.1	1.7	5.1	4.6	6.2	12.7	100.0
1922	....	57.4†	....	2.2	....	....	3.8	1.3	7.4	4.8	9.8	13.3	100.0
1923	....	52.7†	....	2.6	....	....	4.0	0.9	9.6	5.8	17.5	6.9	100.0
1924	....	54.9†	....	2.6	....	....	3.1	0.8	9.7	6.0	16.3	6.6	100.0
1925	26.8	29.1	....	2.9	32.0	....	3.5	0.8	11.0	4.5	17.4	4.0	100.0
1926	25.6	32.0	....	2.8	34.8	....	3.5	0.8	10.8	4.4	17.0	3.1	100.0
1927	26.2	37.5	....	0.3	37.8	....	2.9	0.6	10.8	1.9	17.4	2.4	100.0
1928	26.2	38.3	....	0.3	38.6	....	1.8	0.4	11.8	1.5	16.9	2.8	100.0
1929	30.9	34.8	....	0.2	35.0	....	1.7	0.4	12.2	0.2	17.0	2.7	100.0
1930	31.5	34.7	....	*	34.7	....	1.8	0.3	12.4	0.1	16.1	3.0	100.0
1931	29.6	36.5	....	...	36.5	....	1.7	0.4	15.8	*	13.4	2.6	100.0
1932	22.5	33.2	....	...	38.2	....	2.5	0.5	21.1	*	17.4	2.8	100.0
1933	18.9	21.2	....	...	21.2	....	1.8	2.3	21.6	13.1	13.5	7.5	100.0
1934	14.2	13.4	0.1	2.7	16.2	....	3.8	8.7	14.4	12.1	10.6	20.0	100.0
1935	14.5	15.8	0.2	2.5	18.5	....	5.8	11.3	12.7	9.4	9.5	18.3	100.0
1936	17.3	18.9	0.4	2.5	21.8	*	9.7	12.9	12.8	9.8	9.9	5.7	100.0
1937	21.5	20.8	0.5	2.7	24.0	5.2	6.0	11.7	10.8	8.8	9.6	2.4	100.0
1938	21.3	21.5	0.6	2.3	24.4	12.3	6.9	9.4	9.4	6.9	6.0	3.4	100.0
1939	18.8	20.5	0.5	2.3	23.3	13.5	6.6	10.7	10.6	7.2	5.8	3.5	100.0
1940	17.2	19.7	0.3	2.3	22.3	15.5	6.3	10.9	10.7	7.8	6.1	3.1	100.0
1941	18.1	23.7	2.5	2.1	28.3	12.7	5.2	10.5	8.9	7.9	5.0	3.4	100.0
1942	24.2	22.8	12.4	2.1	37.3	9.4	3.2	7.8	5.8	6.3	2.9	3.1	100.0
1943	29.4	20.0	22.8	1.5	44.3	7.1	2.0	6.3	4.1	3.0	1.4	2.5	100.0
1944	43.2	12.5	22.5	0.9	35.9	4.4	1.2	3.8	2.3	1.7	1.0	6.4	100.0
1945	42.9	11.0	25.1	0.8	36.9	4.0	1.4	5.2	2.1	2.7	0.8	3.9	100.0
1946	45.7	11.3	19.3	0.9	31.5	4.5	1.7	6.2	2.8	3.5	1.1	3.0	100.0

[1] Includes taxes refundable after the war.
[2] Includes Victory tax.
[3] Includes Carriers' Act taxes and deposits by Railroad Retirement Board on daily Treasury statement basis.
[4] Includes consumers', dealers', and retailers' excise taxes.
[5] Includes adjustment of internal revenue collections to daily Treasury statement basis.
* Under $500,000.
† Collections of corporation income, excess-profits, and individual income taxes are not available separately for fiscal years 1918 through 1924. However, the above table, based on a compilation of unaudited tax returns, shows the amounts due on income earned in the calendar years 1916 through 1923.
‡ Excess of credits, deduct. The negative revenue figure results because of 513 million dollars credit adjustment from collections basis to daily Treasury statement basis.
SOURCE: *Economic Almanac.* Treasury Department.
NOTE: Based on total taxes as given in N.I.C.B. *Economic Almanac.* Owing to rounding, components do not always add up to totals.

TABLE B-3.—RELATIVE INCOME-TAX BURDENS. PERSONAL TAXES PAID BY INCOME CLASSES IN DOLLARS AND PER CENTS
(In millions of dollars)

Net income classes, thousands of dollars	1916		1917		1918		1919		1920		1921	
	$	%	$	%	$	%	$	%	$	%	$	%
Individual returns and taxable fiduciary returns, with net income:												
Under 1	.....	.....	.....	.....	....	.....	....	.....	....	.....	0.2	.....
1 under 2	.....	.....	16.2	2.3	26.5	2.3	24.7	1.9	36.9	3.4	29.2	4.1
2 under 3	.....	.....	9.1	1.3	35.4	3.1	28.3	2.2	45.5	4.2	20.7	2.9
3 under 5	0.8	0.5	18.3	2.6	82.9	7.4	75.9	6.0	83.5	7.8	42.7	5.9
5 under 10	6.3	3.6	44.1	6.4	93.1	8.3	91.5	7.2	97.9	9.1	68.9	9.6
10 under 25	11.6	6.7	80.7	11.7	142.4	12.6	164.8	13.0	172.3	16.0	126.9	17.6
25 under 50	11.6	6.7	76.6	11.1	130.2	11.5	154.9	12.2	154.3	14.4	112.9	15.7
50 under 100	16.3	9.4	85.0	12.3	147.4	13.1	186.4	14.7	163.7	15.2	115.7	16.1
100 under 150	12.4	7.2	55.8	8.1	95.7	8.5	118.7	9.3	86.6	8.1	52.3	7.3
150 under 300	24.0	13.8	86.7	12.5	136.2	12.1	163.1	12.8	92.6	8.6	61.5	8.5
300 under 500	18.0	10.4	50.2	7.3	79.2	7.0	86.0	6.8	47.0	4.4	31.9	4.4
500 under 1,000	21.0	12.1	59.3	8.6	69.8	6.2	76.2	6.0	45.6	4.2	25.1	3.5
1,000 and over	51.5	29.7	109.4	15.8	88.9	7.9	99.0	7.8	49.2	4.6	31.4	4.4
Total individual and taxable fiduciary returns, with net income	173.4	100.0	691.5	100.0	1,127.7	100.0	1,269.6	100.0	1,075.1	100.0	719.4	100.0

TABLE B-3.—(continued)

Net income classes $000	1922		1923		1924		1925		1926		1927		1928	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Individual returns and taxable fiduciary returns, with net income:														
Under 1	0.2	.....	0.3	.....	0.1	.....	0.1	.....	0.1	.....	.....	.....	0.1	.....
1 under 2	27.1	3.1	18.3	2.7	10.4	1.5	1.7	0.2	1.8	0.2	1.2	0.1	1.6	0.1
2 under 3	20.7	2.4	16.6	2.5	10.2	1.4	3.8	0.5	4.2	0.6	4.0	0.5	4.3	0.4
3 under 5	47.5	5.5	46.0	7.0	26.9	3.8	8.3	1.1	7.2	1.0	6.5	0.8	7.5	0.6
5 under 10	70.4	8.2	54.1	8.2	28.8	4.1	19.1	2.6	20.3	2.8	20.7	2.5	22.9	2.0
10 under 25	123.6	14.4	103.1	15.6	78.1	11.1	74.2	10.1	72.5	9.9	74.2	8.9	82.8	7.1
25 under 50	125.7	14.6	103.6	15.7	109.4	15.5	120.7	16.4	112.8	15.4	119.5	14.4	136.6	11.7
50 under 100	144.1	16.7	108.9	16.5	136.6	19.4	147.8	20.1	140.9	19.2	156.7	18.9	194.4	16.7
100 under 150	71.3	8.3	55.7	8.4	75.7	10.7	79.5	10.8	77.9	10.6	87.4	10.5	116.9	10.0
150 under 300	98.8	11.5	62.1	9.4	92.5	13.1	103.1	14.0	104.0	14.2	123.8	14.9	182.5	15.7
300 under 500	43.5	5.1	31.7	4.8	45.8	6.5	55.7	7.6	55.3	7.5	73.8	8.9	113.2	9.7
500 under 1000	38.6	4.5	25.5	3.9	42.6	6.0	53.7	7.3	53.7	7.3	64.3	7.7	116.4	10.0
1,000 and over	49.5	5.7	35.8	5.4	47.2	6.7	66.9	9.1	81.9	11.2	98.7	11.9	185.1	15.9
Total individual and taxable fiduciary returns, with net income	861.1	100.0	661.7	100.0	704.3	100.0	734.6	100.0	732.5	100.0	830.6	100.0	1,164.3	100.0

TABLE B-3.—RELATIVE INCOME-TAX BURDENS. PERSONAL TAXES PAID BY INCOME CLASSES IN DOLLARS AND PER CENTS—(*continued*)

Net income classes $000	1929		1930		1931		1932		1933		1934		1935	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Individual returns and taxable fiduciary returns, with net income:														
Under 1	.....	.....	.....	.....	.....	.....	0.1	.....	0.1	.....	0.1	.....	0.1	.....
1 under 2	0.6	0.1	1.3	0.3	0.9	0.4	12.3	3.7	10.3	2.8	8.7	1.7	10.1	1.5
2 under 3	1.4	0.1	3.3	0.7	2.5	1.0	9.8	3.0	7.7	2.1	7.6	1.5	9.3	1.4
3 under 5	2.4	0.2	5.4	1.1	3.8	1.5	20.9	6.3	18.4	4.9	18.3	3.6	20.7	3.1
5 under 10	9.6	1.0	17.4	3.7	12.4	5.0	35.6	10.8	35.1	9.4	43.1	8.4	48.7	7.4
10 under 25	59.9	6.0	49.6	10.4	31.9	13.0	50.2	15.2	55.0	14.7	84.0	16.4	103.8	15.8
25 under 50	113.9	11.4	72.7	15.3	40.1	16.3	43.5	13.2	52.4	14.0	84.9	16.6	106.7	16.2
50 under 100	160.8	16.0	87.4	18.3	44.8	18.2	47.2	14.3	57.5	15.4	84.8	16.6	112.8	17.2
100 under 150	99.6	9.9	48.7	10.2	23.1	9.4	24.5	7.4	30.4	8.1	38.2	7.5	54.1	8.2
150 under 300	159.2	15.9	62.5	13.1	28.8	11.7	31.9	9.7	40.4	10.8	58.0	11.3	74.0	11.3
300 under 500	97.3	9.7	33.1	6.9	15.4	6.3	18.6	5.6	17.9	4.8	20.9	4.1	37.2	5.7
500 under 1000	106.2	10.6	34.3	7.2	15.5	6.3	19.0	5.8	21.2	5.7	30.7	6.0	38.3	5.8
1,000 and over	191.1	19.1	61.1	12.8	26.9	10.9	16.5	5.0	27.8	7.4	32.2	6.3	41.5	6.3
Total individual and taxable fiduciary returns, with net income	1,001.9	100.0	476.7	100.0	246.1	100.0	330.0	100.0	374.1	100.0	511.4	100.0	657.4	100.0

TABLE B-3.—(*continued*)

Net income classes $000	1936		1937		1938		1939		1940		1941[1]		1942[2]	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Individual return and taxable fiduciary returns, with net income:														
Under 1	0.3	.....	0.5	.....	0.7	0.1	0.7	0.1	2.1	0.1				
1 under 2	14.0	1.2	17.3	1.5	15.2	2.0	21.4	2.3	57.7	3.9	210.5	14.1	1,243.0	32.0
2 under 3	14.0	1.2	15.6	1.4	13.8	1.8	21.4	2.3	49.8	3.3				
3 under 5	32.2	2.5	38.9	3.4	33.9	4.4	47.4	5.1	78.8	5.3				
5 under 10	79.4	6.5	83.5	7.3	71.7	9.4	83.4	9.0	119.5	8.0	116.8	7.8	391.3	10.1
10 under 25	175.6	14.5	175.7	15.4	134.2	17.5	158.2	17.0	253.2	16.9	247.9	16.6	678.2	17.4
25 under 50	191.3	15.8	179.4	15.7	120.6	15.8	146.9	15.8	271.0	18.1	264.1	17.7	560.4	14.4
50 under 100	216.0	17.8	194.5	17.0	117.0	15.3	146.7	15.8	251.4	16.8	245.0	16.4	452.3	11.6
100 under 150	116.2	9.6	102.1	8.9	58.2	7.6	72.0	7.8	110.6	7.4	109.6	7.3	174.1	4.5
150 under 300	147.4	12.1	131.1	11.5	69.7	9.1	88.2	9.5	122.8	8.2	122.0	8.2	179.4	4.6
300 under 500	71.5	5.9	67.5	5.9	39.8	5.2	44.2	4.8	61.0	4.1	60.5	4.1	81.4	2.1
500 under 1000	78.9	6.5	74.2	6.5	42.4	5.5	44.6	4.8	51.2	3.4	51.2	3.4	69.2	1.8
1,000 and over	77.1	6.4	61.5	5.4	48.0	6.3	53.1	5.7	66.6	4.5	66.2	4.4	60.7	1.6
Total individual and taxable fiduciary returns, with net income	1,214.0	100.0	1,141.6	100.0	765.2	100.0	928.4	100.0	1,495.9	100.0	1,493.7	100.0	3,890.1	100.0

NOTE: Owing to rounding off, totals do not necessarily equal sum of groups.

[1] Filed in period January through June 1941.

[2] Filed in period January through June 1942.

SOURCE: Treasury Department, Bureau of Internal Revenue, Statistics of Income.

Table B-4.—Federal Debt

End of fiscal year	Total gross debt, millions of dollars	Gross debt per capita, dollars	End of fiscal year	Total gross debt, millions of dollars	Gross debt per capita, dollars
1853	59.8	2.36	1900	1,263.4	16.56
1854	42.2	1.62	1901	1,221.6	15.71
1855	35.6	1.32	1902	1,178.0	14.89
1856	32.0	1.15	1903	1,159.4	14.40
1857	28.7	1.01	1904	1,136.3	13.88
1858	44.9	1.53	1905	1,132.4	13.60
1859	58.5	1.93	1906	1,142.5	13.50
1860	64.8	2.06	1907	1,147.2	13.33
1861	90.6	2.83	1908	1,177.7	13.46
1862	524.2	16.03	1909	1,148.3	12.91
1863	1,119.8	33.56	1910	1,146.9	12.69
1864	1,815.8	53.33	1911	1,154.0	12.28
1865	2,677.9	77.07	1912	1,193.8	12.48
1866	2,755.8	77.69	1913	1,193.0	12.26
1867	2,650.2	73.19	1914	1,188.2	12.00
1868	2,583.4	69.87	1915	1,191.3	11.83
1869	2,545.1	67.41	1916	1,225.1	11.96
1870	2,436.5	63.19	1917	2,975.6	28.57
1871	2,322.1	58.70	1918	12,243.6	115.65
1872	2,210.0	54.44	1919	25,482.0	240.09
1873	2,151.2	51.62	1920	24,299.3	228.33
1874	2,159.9	50.47	1921	23,977.5	221.10
1875	2,156.3	49.06	1922	22,963.4	208.97
1876	2,130.8	47.21	1923	22,349.7	200.10
1877	2,107.8	45.47	1924	21,250.8	186.86
1878	2,159.4	45.37	1925	20,516.2	177.82
1879	2,298.9	47.05	1926	19,643.2	167.70
1880	2,090.9	41.69	1927	18,511.9	156.05
1881	2,019.3	39.35	1928	17,604.3	146.69
1882	1,856.9	35.37	1929	16,931.1	139.40
1883	1,722.0	32.07	1930	16,185.3	131.49
1884	1,625.3	29.60	1931	16,801.3	135.37
1885	1,578.6	28.11	1932	19,487.0	155.93
1886	1,555.7	27.10	1933	22,538.7	179.21
1887	1,465.5	24.97	1934	27,053.1	213.65
1888	1,384.6	23.09	1935	28,700.9	225.07
1889	1,249.5	20.39	1936	33,778.5	263.01
1890	1,122.4	17.92	1937	36,424.6	281.80
1891	1,005.8	15.75	1938	37,164.7	285.41
1892	968.2	14.88	1939	40,439.5	308.29
1893	961.4	14.49	1940	42,967.5	325.63
1894	1,016.9	15.04	1941	48,961.4	367.54
1895	1,096.9	15.91	1942	72,422.4	537.35
1896	1,222.7	17.40	1943	136,696.1	1,001.45
1897	1,226.8	17.14	1944	201,003.4	1,455.49
1898	1,232.7	16.90	1945	258,682.2	1,847.73
1899	1,436.7	19.33	1946	269,422.1	1,910.80

Source: Annual reports of the Secretary of the Treasury and the Budget of the U.S. Government.

SECTION C

TABLE C-1.—REGULAR FEDERAL GRANTS-IN-AID TO THE STATES AND LOCALITIES,[6] FISCAL YEARS 1920–1945
(In thousands of dollars)

Year	Agriculture[1]	Highways[2]	Social welfare and security[3]	Vocational education and rehabilitation[4]	Public employment offices	Miscellaneous[5]	Total	National guard
1920	8,507	62,535	2,354	2,107	....	1,272	76,775	2,663
1921	9,092	89,842	1,925	3,379	....	1,041	105,279	7,988
1922	9,813	89,990	1,312	3,982	....	844	105,941	20,814
1923	10,195	69,677	1,151	5,837	....	538	87,398	24,714
1924	10,207	79,217	1,148	5,412	....	930	96,914	24,243
1925	10,249	95,750	1,545	6,472	....	781	114,797	29,230
1926	11,418	87,755	1,563	7,144	....	659	108,539	29,480
1927	12,113	81,371	1,406	7,105	....	484	102,479	39,376
1928	12,814	80,802	1,581	7,345	....	781	103,323	32,361
1929	14,893	82,097	1,864	7,482	....	640	106,976	33,015
1930	15,888	75,881	775	8,121	....	625	101,290	31,988
1931	17,255	20,296	962	8,714	....	577	47,804	34,715
1932	17,353	58,912	2,352	9,530	....	886	89,033	34,778
1933	17,272	62,132	496	8,719	....	947	89,566	33,170
1934	16,906	55,669	1,472	7,860	909	675	83,441	24,552
1935	17,061	*	851	11,026	1,927	669	31,534	28,770
1936	26,933	22,941	34,049	10,806	2,864	687	98,280	33,137
1937	28,518	78,335	166,895	11,280	3,084	745	288,857	34,283
1938	30,814	141,009	275,082	21,221	3,703	799	472,628	15,921
1939	32,820	161,732	322,101	21,311	3,526	1,068	542,558	39,832
1940	33,911	155,357	348,600	21,467	3,367	1,590	564,292	71,020
1941	33,801	162,664	414,660	22,265	3,184	7,408	643,982	65,702
1942	34,277	146,038	500,117	23,115	1,591	12,864	718,002	933
1943	35,509	82,150	453,941	21,467	....	12,919	605,986	1,891
1944	38,216	45,741	462,663	26,407	....	12,339	584,849	245
1945	40,720	30,343	367,467	19,811	....	11,410	470,903	299

[1] Experiment Stations (1887); Extension (1914); Forest Fire Cooperation (1911); Forest Planting Stock (1924); Agricultural Colleges (1890); Special Research Fund (1935).

[2] Federal aid (1916); Federal aid, secondary roads (1936); Elimination of grade crossings (1936); Public-land highways (1921).

[3] Maternal and Child Health (1921); Crippled Children (1935); Child Welfare (1935); Old-age Assistance (1935); Aid to Dependent Children (1935); Aid to Blind (1935); Education of Blind (1879); Public Health; Unemployment Compensation Administration (1935).

[4] Education (1917); Rehabilitation (1920).

[5] Annual Contributions Public Housing Agencies (1937); State and Municipal Marine Schools (1911); State Veterans' Homes (1888); Wild Life restoration (1937).

* Relief and Recovery Funds only.

[6] Regular federal grants-in-aid include periodic federal payments to state and local governments for specified purposes. Three general categories of expenditures are excluded: (1) grants financed out of *recovery* and *relief appropriations* (PWA, certain road and highway projects, etc.); (2) payments to *individuals* from regular and emergency appropriations (WPA, CCC, etc.); (3) *direct* federal expenditures in cooperation with states (control of animal diseases, pest control, etc.).

SOURCE: Annual Reports, Secretary of Treasury; Combined Statement of Receipt and Expenditures; and H. J. Bitterman, *State and Federal Grants-in-Aid*.

TABLE C-2.—REGULAR FEDERAL GRANTS-IN-AID, 1920–1945 PAYMENTS TO STATES AND LOCALITIES
(In thousands of dollars)

Fiscal Year	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
Agriculture:													
Experimental Stations (1887)	1,440	1,440	1,440	1,440	1,440	1,440	2,400	2,874	3,357	3,840	4,335	4,340	4,357
Extension (1914)	4,472	5,032	5,474	5,810	5,821	5,860	5,879	5,879	5,878	7,163	7,540	8,650	8,633
Forest Fire Cooperation (1911)	95	120	399	395	396	399	556	739	945	1,266	1,383	1,639	1,717
Forest Planting Stock (1924)	....	....	....	....	....	....	33	71	84	74	80	76	96
Agricultural Colleges (1890)	2,500	2,500	2,500	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550
Agricultural Research (1935)	....	....	....	....	....	....	....	....	....	....	....	....	....
Total	8,507	9,092	9,813	10,195	10,207	10,249	11,418	12,113	12,814	14,893	15,888	17,255	17,353
Highways:													
Federal Aid Highways (1916)	62,535	89,842	89,990	69,677	79,217	95,750	87,755	81,371	80,802	82,097	75,881	20,296	58,912
Fed. Aid, Secondary Rds. (1936)	....	....	....	....	....	....	....	....	....	....	....	....	....
Elim. of Grade Cross. (1936)	....	....	....	....	....	....	....	....	....	....	....	....	....
Public-land Highways (1921)	....	....	....	....	....	....	....	....	....	....	....	....	....
Total	62,535	89,842	89,990	69,677	79,217	95,750	87,755	81,371	80,802	82,097	75,881	20,296	58,912
Social Welfare and Security:													
Maternal and Child Health, etc. (1921)	....	....	217	602	721	884	955	1,006	972	1,139	10[1]	....	....
Old-Age Assistance and Dependent Children, etc. (1935)	....	....	....	....	....	....	....	....	....	....	....	....	....
Blind (Education of) (1879)	30	60	50	50	50	50	50	50	75	75	75	75	75
Public Health (1935)	2,324	1,865	1,045	499	377	611	558	350	534	650	690	887	2,277
Total	2,354	1,925	1,312	1,151	1,148	1,545	1,563	1,406	1,581	1,864	775	962	2,352
Vocational Educ. and Rehabilitation:													
Education (1917)	2,107	2,909	3,726	5,334	4,853	5,916	6,595	6,539	6,732	6,801	7,385	7,898	8,532
Rehabilitation (1920)	....	470	256	503	559	556	549	566	613	681	736	816	998
Total	2,107	3,379	3,982	5,837	5,412	6,472	7,144	7,105	7,345	7,482	8,121	8,714	9,530
Employment:													
Public Emp. Offices (1933)	....	....	....	....	....	....	....	....	....	....	....	....	....
Miscellaneous:													
Annual Contributions:	....	....	....	....	....	....	....	....	....	....	....	....	....
Public Housing Agencies (1937)	....	....	....	....	....	....	....	....	....	....	....	....	....
State, and Municipal Marine Schools (1911)	177	75	81	73	75	75	75	75	75	75	50	125	100
State Homes Disabled Vet. (1888)	1,095	966	763	465	855	706	584	409	706	565	575	452	786
Wild Life Restoration (1937)	....	....	....	....	....	....	....	....	....	....	....	....	....
Total	1,272	1,041	844	538	930	781	659	484	781	640	625	577	886
Grand total	76,775	105,279	105,941	87,398	96,914	114,797	108,539	102,479	103,323	106,976	101,290	47,804	89,033
National Guard	2,663	7,988	20,814	24,714	24,243	29,230	29,480	39,376	32,361	33,015	31,988	34,715	34,778

TABLE C-2. — (*continued*)

Fiscal Year	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
Agriculture:													
Experimental Stations (1887)	4,359	4,358	4,384	4,992	5,611	6,229	6,538	6,848	6,861	6,925	6,922	6,946	6,972
Extension (1914)	8,607	8,352	8,580	16,664	16,343	17,252	17,822	18,458	18,478	18,847	18,784	20,583	22,512
Forest Fire Cooperation (1911)	1,659	1,585	1,503	1,756	1,674	1,678	1,973	1,988	1,979	2,182	3,545	5,552	6,089
Forest Planting Stock (1924)	97	61	44	59	63	78	88	90	78	83	115	105	117
Agricultural Colleges (1890)	2,550	2,550	2,550	3,530	4,030	4,530	5,030	5,030	5,030	5,030	5,030	5,030	5,030
Agricultural Research (1935)	.....	......	......	112	797	1,047	1,369	1,497	1,375	1,210	1,113	1,183	1,152
Total	17,272	16,906	17,061	26,933	28,518	30,814	32,820	33,911	33,801	34,277	35,509	39,399	41,872
Highways:													
Federal Aid Highways (1916)	62,132	55,669	.....[2]	22,941	77,041	131,227	122,635	105,315	114,362	103,785	61,700	35,625	23,733
Fed. Aid, Secondary Rds. (1936)	.....	......	......	....	....	3,199	16,434	18,355	17,244	15,679	6,604	4,054	2,948
Elim. of Grade Cross. (1936)	.....	......	......	....	....	4,865	20,977	29,522	29,636	25,762	13,630	5,894	3,601
Public-land Highways (1921)	.....	......	......	....	1,294	1,718	1,686	2,129	1,422	812	216	168	62
Total	62,132	55,669	.....	22,941	78,335	141,009	161,732	155,357	162,664	146,038	82,150	45,741	30,343
Social Welfare and Security:													
Maternal and Child Health, etc. (1921)	.....	.....	......	2,162[3]	5,962[3]	7,773[3]	8,290[3]	9,681[3]	10,931[3]	11,508[3]	11,139[3]	11,158	10,691
Old-Age Assistance and Dependent Children, etc. (1935)	.....	......	......	29,361[4]	153,093[4]	258,275[4]	305,711[4]	329,303[4]	392,856[4]	477,011[4]	432,104[4]	440,540	345,738
Blind (Education of) (1879)	75	75	75	75	75	125	115	115	125	125	125	125	125
Publc Health (1935)	421	1,397	776	2,451	7,765	8,909	7,985	9,501	10,748	11,473	10,573	10,840	10,913
Total	496	1,472	851	34,049	166,895	275,082	322,101	348,600	414,660	500,117	453,941	462,663	367,467
Vocational Educ. and Rehabilitation:													
Education (1917)	7,726	6,998	9,997	9,450	9,695	19,569	19,533	19,385	20,084	20,463	20,861	20,334	19,811
Rehabilitation (1920)	993	862	1,029	1,356	1,585	1,652	1,778	2,082	2,181	2,652	2,782	6,073	....
Total	8,719	7,860	11,026	10,806	11,280	21,221	21,311	21,467	22,265	23,115	23,643	26,407	19,811
Employment:													
Public Emp. Offices (1933)	.....	909	1,927	2,864	3,084	3,702	3,526	3,367	3,184	1,591	.....	......	......
Miscellaneous:													
Annual Contributions: Public Housing Agencies (1937)	.....	......	......	.....	......	......	......	......	4,747	9,926	9,883	10,131	8,722
State and Municipal Marine Schools (1911)	189	102	182	150	210	149	247	140	160	193	143	155	165
State Homes Disabled Vet. (1888)	758	523	487	537	535	650	699	979	1,365	1,320	1,198	1,119	1,217
Wild Life Restoration (1937)	.....	......	......	.....	......	......	122	471	1,136	1,425	1,695	1,134	1,306
Total	947	625	669	687	745	799	1,068	1,590	7,408	12,864	12,919	12,539	11,410
Grand Total	89,566	83,441	31,534	98,280	288,857	472,628	542,558	564,292	643,982	718,002	608,162	596,749	470,903
National Guard	33,170	24,552	28,770	33,137	34,283	15,921	39,832	71,020	65,702	933	1,891	245	299

SOURCE: Annual Report, Secretary of the Treasury; Combined Statement of Receipts and Expenditures; and H. J. Bitterman, *State and Federal Grants-in-Aid.*

[1] Discontinued 1930. [2] Relief or Recovery Funds only. [3] Total of Maternal and Child Health, Child Welfare, and Crippled Children.

[4] Old-age, Dependent Children, Aid to Blind, Unemployment, Compensation Administration.

TABLE C-3.—FEDERAL REVENUES SHARED WITH THE STATES[1]
PAYMENTS TO STATES, 1920–1945
(In thousands of dollars)

Year	Amount
1920	1,149
1921	1,391
1922	2,926
1923	3,213
1924	4,182
1925	6,022
1926	4,752
1927	4,788
1928	3,928
1929	3,303
1930	3,904
1931	4,306
1932	3,454
1933	2,078
1934	2,228
1935	2,368
1936	2,394
1937	2,715
1938	3,491
1939	4,490
1940	4,277
1941	4,279
1942	4,660
1943	6,961
1944	7,364
1945	10,273

[1] The following sources of revenue, listed in the combined statement of receipts and expenditures for 1943, are included: National Forest Funds (19 School Funds, Arizona and New Mexico, (1910); Submarginal Land Program (1937); Arizona and Nevada, Boulder Canyon (1928); Oregon and Califo Land Grants (1926); Grazing Act (1934); Sale of Public Lands (1820); Oklahoma Oil and Gas Royalties (1923); Migratory Bird Conservation (1935); Min Leasing Act (1920); Potash Deposits (1917); Licenses under Federal Power Act (1920). Dates in parenthesis indicate the year the statute authorizing payn was passed, but not necessarily the year the first payment was made.

SOURCE: Annual Reports, Secretary of the Treasury.

SECTION D

TABLE D-1.—STATE TAX COLLECTIONS, 1915–1945[1] (In millions of dollars)

Year	General and selective property taxes	Severance taxes	Motor-vehicle taxes	Sales taxes	Taxes on specific business	Net income taxes	Death and gift taxes	Poll taxes	Miscel-laneous licenses	Document and stock registration	All other taxes	Unemploy-ment com-pensation	Total
1915	185.9	....	14.9	......	132.8	2.3	28.8	3.2	....	....	....	......	367.9
1919	237.2	....	64.7	1.0	180.1	49.5	45.8	2.1	....	....	13.6	......	594.0
1922	348.3	....	152.0	12.7	242.6	97.6	66.1	8.3	....	....	19.7	......	947.3
1923	352.5	....	189.0	38.6	236.1	92.7	74.9	6.7	....	....	29.0	......	1,019.5
1924	351.6	....	225.5	80.4	272.9	101.1	79.3	3.6	....	....	24.3	......	1,138.7
1925	358.6	....	260.6	148.4	304.0	102.8	85.9	3.9	8.8	....	32.3	......	1,305.3
1926	375.7	....	288.3	187.6	330.9	134.1	90.6	3.7	10.0	....	43.8	......	1,464.7
1927	370.4	....	301.1	358.8	353.2	162.2	105.9	3.4	11.3	....	41.2	......	1,607.5
1928	381.2	....	322.6	304.9	369.2	184.0	127.5	3.9	12.9	....	49.9	......	1,756.1
1929	350.2	....	347.8	431.3	381.8	203.9	148.6	3.5	14.5	....	69.2	......	1,950.8
1930	345.2	....	355.7	508.2	392.9	233.4	183.4	4.1	14.5	....	70.1	......	2,107.5
1931	371.4	26.5	344.3	562.6	300.5	200.5	187.1	5.1	14.0	28.4	1.3	......	2,041.7
1932	335.2	19.3	324.3	543.0	297.8	152.4	147.9	3.4	13.5	22.8	1.9	......	1,861.5
1933	285.1	14.0	302.7	562.3	260.2	120.7	126.5	2.6	14.0	35.0	1.3	......	1,724.4
1934	273.3	20.6	304.9	830.7	270.9	129.0	93.4	3.7	14.5	36.6	1.8	......	1,979.4
1935	248.1	26.1	322.8	1,050.3	266.6	159.3	100.0	5.8	15.5	19.2	3.2	......	2,216.9
1936	227.5	34.1	359.8	1,231.5	315.7	265.3	117.0	8.2	16.2	40.1	2.8	23.2	2,618.2
1937	291.9	48.9	399.6	1,434.7	363.0	367.4	116.1	6.2	16.8	41.1	3.1	346.8	3,088.8
1938	244.0	62.5	388.8	1,454.4	393.1	402.3	145.4	7.0	18.5	27.0	2.8	701.6	3,145.8
1939	259.2	49.3	386.3	1,483.4	396.5	345.0	135.2	6.5	18.6	25.6	3.2	799.0	3,108.8
1940	264.7	52.8	411.8	1,642.7	428.3	370.7	116.4	6.8	21.0	25.1	2.6	843.6	3,342.9
1941	267.8	53.4	434.0	1,829.7	433.3	422.0	117.5	5.3	21.6	19.4	1.7	901.5	4,507.2
1942	270.9	62.4	431.0	1,981.4	466.5	523.5	112.1	5.7	23.8	19.0	2.5	1,076.0	4,974.8
1943	258.4	74.7	394.6	1,895.4	510.9	632.8	108.7	6.6	23.3	18.9	0.5	1,171.5	5,096.3
1944	243.2	70.6	398.2	1,867.3	518.8	765.8	112.2	*	23.4	†	15.1	1,319.5	5,330.4
1945	228.6	82.6	406.4	1,961.9	568.1	809.9	132.0	*	25.0	†	40.9	1,253.8	5,509.2
Absolute increase 1915–1945	42.7	....	391.5	1,961.9	435.3	807.6	103.2	....	....	....	....	......	5,141.3

[1] Data includes local shares. SOURCE: 1915–1940: "Federal, State, and Local Government Fiscal Relations," 78th Congress, 1st Session, Document No. 69, pp. 340–343. 1941–45: *Financial Statistics of States.*

* Poll taxes not reported in several states. † Included in next column.

TABLE D-2.—TREND IN STATE SALES TAX COLLECTIONS, 1915–1944
(In millions of dollars)

Year	General sales	Motor fuel	Alcoholic beverages	Tobacco products	Admissions and amusements	Soft drinks	Oleomargarine	Total
1915								
1919	.....	1.0	.....	.....	...	...	...	1.0
1922	.....	12.7	.....	.....	...	...	...	12.7
1923	.....	38.6	.....	.....	...	...	...	38.6
1924	.....	80.4	.....	.....	...	...	...	80.4
1925	.....	148.4	.....	.....	...	...	...	148.4
1926	.....	187.6	.....	.....	...	...	...	187.6
1927	.....	258.8	.....	.....	...	...	...	258.8
1928	.....	304.9	.....	.....	...	...	...	304.9
1929	.....	431.3	.....	.....	...	...	...	431.3
1930	1.2	494.7	.....	12.3	...	...	...	508.2
1931	7.7	536.4	0.9	14.6	1.5	1.0	0.5	562.6
1932	7.1	513.0	1.4	18.9	1.4	0.7	0.5	543.0
1933	16.1	518.2	6.1	20.1	1.1	0.4	0.3	562.3
1934	173.4	565.0	64.2	24.6	2.2	1.0	0.3	830.7
1935	284.4	616.9	114.2	28.7	4.5	1.2	0.4	1,050.3
1936	364.0	686.6	129.4	43.5	6.1	1.2	0.7	1,231.5
1937	434.4	756.9	177.0	52.9	8.7	4.0	0.8	1,434.7
1938	446.8	766.9	174.7	56.1	6.2	2.9	0.8	1,454.4
1939	440.1	800.9	174.3	59.5	5.0	3.0	0.6	1,483.4
1940	490.2	845.4	200.0	97.8	5.5	3.3	0.5	1,642.7
1941	575.1	913.1	216.1	106.3	6.3	4.0	0.1	1,829.7
1942	632.7	942.2	256.2	130.8	7.7	4.7	0.1	1,981.4
1943	670.5	777.3	279.9	140.8	9.4	5.1	...	1,895.4
1944	721.1	691.1	267.1	158.4	9.4	...	...	1,857.3
1945	775.1	701.1	308.4	145.3	10.5	...	...	1,961.9

SOURCE: "Federal, State, and Local Government Fiscal Relations," 78th Congress, 1st Session, Senate Doc. No. 69, pp. 340–343. *Financial Statistics of States.*

[1] Includes 8.6 million dollars for 1941, 8.9 million for 1942, 12.7 million for 1943, 19.2 million for 1944, and 21.5 million for 1945, given in *Financial Statistics of States* as "Other."

NOTE: Items not available not included in totals for 1943 and 1944.

TABLE D-3.—TOTAL LOCAL TAX COLLECTIONS (In millions of dollars)

Fiscal Year	Total Local Tax Collections	Fiscal Year	Total Local Tax Collections
1890	405	1933	4,210
1903	705	1934	4,160
1915	1,496	1935	4,299
1919	2,395	1936	4,308
1922	3,157	1937	4,408
1923	3,285	1938	4,552
1924	3,602	1939	4,553
1925	3,811	1940	4,684
1926	4,134	1941	4,709
1927	4,367	1942	4,745
1928	4,641	1943	4,731
1929	4,819	1944	4,810[1]
1930	5,018	1945	4,778[1]
1931	4,805		
1932	4,716		

[1] Preliminary.
SOURCE: N.I.C.B. *Economic Almanac.*

TABLE D-4.—LOCAL TAX COLLECTIONS (In millions of dollars)

Fiscal year	Local property taxes[1]	Other local taxes[1]
1915	1,424	72
1919	2,268	127
1922	2,974	183
1923	3,094	191
1924	3,389	213
1925	3,582	229
1926	3,882	252
1927	4,101	266
1928	4,353	288
1929	4,520	299
1930	4,702	316
1931	4,407	308
1932	4,414	302
1933	3,941	269
1934	3,885	275
1935	3,998	301
1936	3,985	323
1937	4,054	352
1938	4,161	386
1939	4,137	409
1940	4,247	420
1941	4,281	423
1942	4,307	426
1943	4,326	428
1944	4,384	450

[1] N.I.C.B. *Economic Almanac.*
Estimated on basis of percentages in Senate Doc. No. 69. "Federal, State, and Local Government Fiscal Relations," p. 349.

TABLE D-5.—LOCAL TAX REVENUES, 1922, 1932, AND 1941 BY SOURCES
(In millions of dollars)

Tax source	1922	1932	1941
Net income:	60.6[1]	.....	4
Individual	......	.....	2
Corporate	......	.....	2
Death and gift:	......	.....	1
Property	2,973.2	4,361	4,224
Taxes on specific business:	102.9[2]	94[3]	179
Corporation and utilities	......	.....	40
Alcoholic beverages	......	.....	35
Severance	......	.....	104
Sales and gross income:	......	.....	106
General sales	......	....	66
Miscellaneous excises	......	....	32[4]
Motor-vehicle fuel	......	.....	7
Motor-vehicle licenses	......	.....	24
Pay roll	......	.....	5
Other:	......	38	64
Licenses offsetting taxes	......	.....	50
Poll and miscellaneous	20.8[5]	.....	14
Total	3,157.8[6]	4,494	4,606

[1] Includes inheritance and income.

[2] Licenses and permits.

[3] Corporations, public utilities, severances, and miscellaneous.

[4] Consists chiefly of yields from Philadelphia gross income tax and New York City taxes on business gross income.

[5] Poll taxes only.

[6] Special assessments excluded.

SOURCE: 1922: *Wealth, Public Debt, Taxation,* "Taxes Collected," p. 125; 1932, 1941: Bureau of the Census, *Financing, Federal, State, and Local Governme*[nts], 1941, pp. 22, 35.

Table D-6.—Tax Collections as Percentages of National Income

Year	Federal	State	Local
1919	6.3	0.9	3.7
1922	5.9	1.6	5.2
1925	3.9	1.7	5.0
1928	4.0	2.2	5.8
1930	5.0	3.1	7.3
1931	5.0	3.8	8.8
1932	4.5	4.7	11.7
1933	4.2	4.1	10.0
1934	5.9	4.0	8.4
1935	6.4	4.0	7.7
1936	5.9	4.1	6.6
1937	7.0	4.8	6.1
1938	9.3	6.0	6.8
1939	7.6	5.5	6.1
1940	7.2	5.4	5.7
1941	8.1	5.2	5.6
1942	10.1	4.3	4.1
1943	14.1	3.7	3.4
1944	25.1	3.6	3.3

Source: Senate Doc. No. 69, "Federal, State, and Local Government Fiscal Relations," p. 333.

Table D-7.—Grants-in-Aid from States to Localities, Selected Years, 1902–1944 (In millions of dollars)

Year	Amount
1902	58.3
1912	86.6
1925	340.6
1928	382.4
1932	518.7
1933	565.0
1934	673.8
1935	773.1
1936	*
1937	1,108.5
1938	1,282.1
1939	1,273.3
1940	1,353.9
1941	1,482.9
1942	1,566.4
1943	1,782.0
1944	1,795.3

Table D-8.—Local Shares of State Administered and Collected Taxes (In millions of dollars)

Year	Amount
1902	17.5
1912	32.3
1925	195.2
1928	267.2
1932	239.9
1933	244.7
1934	263.7
1935	292.8
1936	*
1937	260.0
1938	260.6
1939	263.7
1940	275.8
1941	190.2
1942	222.8

* Not available.

Source: Twentieth Century Fund, Inc., *Facing the Tax Problem*, p. 577, and *Financial Statistics of States.*

TABLE D-9.—STATE EXPENDITURES,[1] OPERATION AND MAINTENANCE OF GENERAL DEPARTMENTS, 1915–1942
(In millions of dollars)

Year	General government	Police protection	Natural resources	Health and sanitation	Highways	Charities, hospitals, correction	Schools and libraries	Interest	Unemployment, security; benefits and administration	Miscellaneous[2]	Total
1915	44.5	26.3	16.6	9.5	22.8	89.2	147.2	18.5	.....	23.1	397.7
1916	47.2	27.8	19.4	9.9	29.2	94.1	153.8	19.3	.....	22.9	423.6
1917	45.4	30.3	19.0	11.3	33.6	103.4	161.3	21.2	.....	22.0	447.5
1918	51.4	33.2	21.6	12.2	38.8	118.1	164.5	23.1	.....	34.1	497.0
1919	52.2	34.1	24.4	14.4	61.6	134.1	184.5	24.1	.....	37.5	566.9
1922	71.3	52.7	42.0	22.0	106.3	162.5	331.9	41.3	.....	129.6	959.6
1923	77.7	52.8	46.6	22.4	108.7	172.2	349.7	50.4	.....	65.8	946.3
1924	74.6	51.0	53.2	23.1	123.3	165.2	370.8	55.8	.....	140.3	1,057.3
1925	85.6	55.8	56.4	24.8	144.3	168.8	397.7	67.7	.....	102.1	1,103.2
1926	86.9	59.7	62.7	25.5	156.6	178.6	415.3	76.9	.....	54.9	1,117.1
1927	99.8	63.8	64.6	27.8	170.8	193.2	447.0	78.7	.....	53.0	1,198.7
1928	97.7	70.1	66.1	29.5	204.5	201.8	482.8	86.9	.....	55.7	1,295.1
1929	114.4	71.9	69.6	31.6	219.3	215.6	518.2	94.1	.....	57.2	1,391.9
1930	110.3	79.5	74.4	33.6	251.3	223.7	558.0	101.4	.....	59.8	1,491.0
1931	126.6	84.1	74.5	36.9	239.9	230.2	591.6	110.8	.....	63.5	1,558.1
1932	121.5	87.0	71.5	25.9	204.7	329.1	593.5	112.3	.....	18.9	1,664.4
1937	151.0	106.1	77.9	36.3	458.1	860.4	830.0	122.0	12.1	97.6	2,751.5
1938	154.0	123.4	89.1	45.0	466.1	1,059.8	892.0	123.5	249.4	103.3	3,305.6
1939	169.5	126.8	100.1	48.7	464.3	1,158.6	876.0	117.4	518.0	116.6	3,696 0
1940	159.3	128.1	101.5	49.0	465.1	1,216.3	927.3	123.1	556.3	118.2	3,844.2
1941	174.5	122.3	119.3	54.5	580.2	1,224.5	927.7	116.1	483.4	218.2	4,020.7
1942	170.6	139.2	124.1	58.0	601.4	1,218.5	1,033.0	113.5	427.5	251.6	4,137.4
Absolute increase, 1915–1942	126.1	112.9	107.5	48.5	578.6	1,129.3	885.8	95.0	.....	.....	3,083.7

[1] Includes grants to localities for specified purposes. Excludes capital outlays and local shares of state taxes.

[2] Includes recreation.

SOURCE: *Financial Statistics of States.*

TABLE D-10.—STATE COST PAYMENTS[1] FOR CAPITAL OUTLAYS, BY FUNCTIONS, 1915–1943
(In millions of dollars)

Year	General[2]	Protection	Highways	Natural resources	Health and sanitation	Hospitals	Charities	Correction	Schools	Libraries	Recreation	Miscellaneous	Total
1915	5.1	3.6	54.4	1.5	0.6	5.6	3.4	4.3	10.8	0.1	1.2	...	90.8
1919	2.7	0.9	37.4	2.2	1.1	5.0	3.8	4.5	11.6	0.3	0.6	0.1	70.4
1925	7.2	2.9	418.8	4.2	1.6	17.9	2.3	5.6	35.8	0.2	3.4	...	500.1
1930	14.6	5.1	635.2	9.5	3.3	45.9	3.9	14.7	39.7	0.3	10.6	0.2	783.0
1932	14.2	4.6	635.1	6.6	3.5	45.3	4.0	22.6	29.6	0.4	15.7	0.1	781.6
1937	5.8	6.0	601.4	4.5	0.3	44.5	1.3	9.0	33.5	0.8	4.1	0.6	711.9
1938	10.8	7.4	567.2	8.2	0.5	43.6	1.8	14.8	34.7	0.6	4.2	1.3	695.2
1939	13.0	7.7	558.7	10.3	1.0	77.3	3.8	15.3	65.6	1.1	4.0	1.4	759.2
1940	8.5	6.7	555.7	6.4	1.0	58.2	4.1	16.8	60.9	1.5	4.6	0.5	724.9
1941	3.5	8.4	560.2	4.9	0.5	36.1	1.8	11.8	31.8	0.7	3.1	1.3	664.1
1942	3.2	8.1	530.6	6.7	0.7	25.1	1.4	7.6	26.4	0.3	3.6	5.1	618 8
1943	1.9	4.5	408.6	4.4	0.7	18.0	0.7	4.6	18.2	0.2	4.2	2.1	468 1

[1] Includes grants to localities.
[2] Administrative, judicial, legislative.
SOURCE: *Financial Statistics of States.*

TABLE D-11.—LOCAL EXPENDITURES,[1] 1932 AND 1941, BY MAJOR FUNCTIONS
(In millions of dollars)

Function	1932	1941	Function	1932	1941
General administrative	567.1	601.2	Schools and libraries	2,061.9	2,286.4
Protection	562.1	580.6	Recreation	154.7	170.5
Highways	935.6	827.0	Contribution to public service enterprises	72.0	101 2
Natural resources	49.1	69.8	Interest	592.0	471 4
Health and sanitation	411.9	371.4	Debt retirement	523.0	660 8
Welfare, hospitals, correction	597.4	1,022.0	Miscellaneous	315 8	276 3
Old-age, unemployment insurance	......	5.9	Total	6,842.7	7,444 5

[1] Includes payments out of funds received from other units of government.
SOURCE: Bureau of the Census, *Financing Federal, State, and Local Governments*. 1941.

TABLE D-12.—GROSS STATE AND LOCAL DEBT IN THE UNITED STATES
1919 AND 1926–1945
(In millions of dollars)

Year	State[1]	Local
1919	744	6,349
1926	1,858	11,910
1927	1,995	12,852
1928	2,144	13,692
1929	2,300	14,600
1930	2,444	15,660
1931	2,666	16,672
1932	2,896	17,136
1933	3,017	16,528
1934	3,231	16,106
1935	3,423	16,285
1936	3,394	16,460
1937	3,260	16,308
1938	3,290	16,194
1939	3,446	16,488
1940	3,564	16,720
1941	3,455	16,813
1942	3,270	13,115[2]
1943	2,946	12,437[2]
1944	2,798	11,425[2]
1945	2,471	10,886[2]

[1] Gross debt as reported by Bureau of the Census, *Financial Statistics of States*, less contingent debt, plus warrants outstanding.
[2] Local figures for 1942–1945 from Conference Board, *Economic Almanac*, 1946–1947, not exactly comparable with earlier years.
SOURCE: Senate Doc. No. 69, "Federal, State, and Local Government Fiscal Relations," p. 358. N.I.C.B., *Economic Almanac*, 1946–1947.

TABLE D-13.—NET STATE AND LOCAL DEBT IN THE UNITED STATES
1890, 1919, AND 1926–1941
(In millions of dollars)

Year	State[1]	Local
1890	......	928
1891	211.2	
1902	239.4	1,630
1913	345.9	3,476
1919	324	4,667
1926	667	8,729
1927	684	9,555
1928	785	10,076
1929	887	10,765
1930	949	11,866
1931	1,192	13,489
1932	1,423	14,253
1933	1,610	13,394
1934	1,729	12,650
1935	1,828	12,617
1936	1,823	12,792
1937	1,819	12,478
1938	1,826	12,274
1939	1,559	12,578
1940	1,996	12,734
1941	1,779	12,685

SOURCE: 1890, 1902, 1913 fom *Wealth, Debt, and Taxation*, Vol. I, p. 229. See Senate Doc. No. 69, "Federal, State, and Local Government Fiscal Relations," p. 359.

NOTE: In 1944, total of state debt was more than offset by accumulation of sinking funds and surpluses, which exceeded total gross debt by 633 million. Excess was shown by 30 states. (*Economic Almanac*, 1946–1947, p. 309.) Surpluses, however, may not be actually so used, on account of planned expenditures deferred during the war. Net long-term state debt was computed in 1945 as 1,839 million when sinking-fund offsets alone were counted. (U. S. Bureau of Census, *State Finance*.)

TABLE D-14.—PER CAPITA GROSS DEBT[1]—STATE AND LOCAL

Year	State	Local
1919	$ 7.00	$ 60.39
1926	15.55	100.83
1927	16.48	107.34
1928	17.51	112.77
1929	18.55	119.06
1930	19.55	126.56
1931	21.02	133.73
1932	20.97	136.36
1933	21.62	130.50
1934	23.47	126.39
1935	24.45	126.98
1936	24.59	127.63
1937	23.46	125.23
1938	24.01	123.67
1939	24.76	125.17
1940	24.97	126.17
1941	24.09	125.56
1942	24.21	97.32
1943	21.60	91.12
1944	20.27	82.24
1945	17.52	77.21

[1] Includes loans outstanding only.

SOURCE: Based on loans outstanding in Senate Doc. No. 69, "Federal, State, and Local Government Fiscal Relations," p. 358, Bureau of the C *State Finances*, and N.I.C.B., *Economic Almanac*, 1945–1946; and on population data in the *Statistical Abstract*, 1942, p. 11, and 1944–1945, p. 8.

TABLE D-15.—PER CENT OF TAX REVENUES REQUIRED TO MEET PUBLIC DEBT INTEREST CHARGES, 1919, 1926–1942

Year	State	Local
1919	4.5	10.6
1926	6.0	11.6
1927	5.7	11.9
1928	5.6	12.0
1929	5.7	12.3
1930	5.6	12.5
1931	6.2	14.3
1932	6.8	15.5
1933	7.7	16.4
1934	7.3	16.1
1935	6.3	16.2
1936	4.7	16.3
1937	3.6	15.9
1938	3.3	13.5
1939	3.0	14.8
1940	3.0	13.6
1941	2.7	14.8
1942	2.3	14.3

SOURCE: 1919–1941, "Federal, State, and Local Government Fiscal Relations," 78th Congress, 1st Session, Senate Doc. No. 69, p. 360; 1942 state puted from data given in *Financial Statistics of States*; 1942 local estimated by NAM. State per cent in 1944 was 1.71.

SECTION E

TABLE E-1.—NUMBER OF GOVERNMENT CORPORATIONS, AND CAPITAL STOCK[1] IN THEM OWNED BY THE U.S., 1920–1943, FISCAL YEARS
(In millions of dollars)

Year	Number	Capital stock
1920	6	398.3
1921	6	275.3
1922	7	338.4
1923	5	148.4
1924	7	134.8
1925	7	89.5
1926	7	86.5
1927	7	85.3
1928	7	92.7
1929	7	87.0
1930	7	93.9
1931	7	95.9
1932	8	725.7
1933	10	804.2
1934	15	1,324.0
1935	23	1,883.6
1936	24	2,050.8
1937	24	2,061.4
1938	26	2,114.8
1939	27	2,169.5
1940	26	2,159.8
1941	31	1,893.4
1942	31	1,973.2
1943	35	2,248.0

Includes paid-in surplus of Federal Land Banks and Federal Intermediate Credit Banks. In the case of World War I corporations, the figure taken was pital stock owned by the United States *minus* cash on deposit with the Treasury. Includes only corporations which use the device of capital stock. Cor- rations such as the TVA, whose capital is nonstock, and certain other agencies not included.

SOURCE: Annual Reports, Secretary of the Treasury, and Bulletin of the Treasury.

TABLE E-2.—ASSETS OF GOVERNMENT CORPORATIONS,[1] 1934–1945, FISCAL YEARS
(In millions of dollars)

Year	Assets[2]	U.S. proprietary interest (net)	Year	Assets[2]	U.S. proprietary interest (net)
1934	7,639	4,032	1940	12,017	3,067
1935	11,067	4,116	1941	13,080	2,808
1936	11,639	4,071	1942	17,745	7,711
1937	11,450	3,797	1943	26,137	14,109
1938	12,098	4,026			
			1944	29,850[3]	21,294[3]
1939	11,999	3,223	1945	33,440[4]	26,390[4]

[1] Includes only corporations and agencies listed in Table E-3.
[2] Net of interagency assets.
[3] As of May 31, 1944.
[4] As of June 30, 1945.
SOURCE: Treasury Bulletin and Annual Reports, Secretary of the Treasury.

TABLE E-3.—ASSETS OF GOVERNMENT CORPORATIONS BY TYPE OF ACTIVITY AS OF MAY 31, 1944, AND JUNE 30, 1945 (In millions of dollars)

Name and type of activity	Assets[1]		Per cent of grand total	
	1944	1945	1944	1945
Grand total	29,850.3[1]	33,449.8	100.0	100.0
Credit (agriculture):				
Bank for Cooperatives	213.9	216.9		
Federal Surplus Commodities Corporation	4.2	2.7		
Federal Intermediate Credit Banks	376.0	366.2		
Federal Land Banks	1,831.0	1,295.7		
Production Credit Corporations	123.1	121.0		
Regional Agricultural Credit Corporations	64.0	15.0		
Federal Farm Mortgage Corporation	648.3	279.1		
Commodity Credit Corporation	1,725.2	1,903.7		
Total	4,985.7	4,200.3	16.70	12.56
Credit (nonagricultural real property):				
The RFC Mortgage Company	32.0	31.2		
Federal National Mortgage Association	15.6	15.4		
Total	47.6	46.6	0.16	0.14
Credit (home owners):				
Home Owners' Loan Corporation	1,571.8	1,146.9		
Federal Home Loan Banks	297.1	309.8		
Total	1,868.9	1,456.7	6.26	4.35
Credit (exports and imports)[2]:				
Export-Import Bank of Washington	272.9	286.1		
Total	272.9	286.1	0.91	0.86
Credit (miscellaneous)[3]:				
Reconstruction Finance Corporation	9,999.5	10,496.4		
Total	9,999.5[5]	10,496.4	33.50	31.39
Credit total	17,174.6	16,551.8	57.53	49.30
Insurance:				
Federal Crop Insurance	5.8	2.9		
Federal Deposit Insurance	775.1	870.1		
Federal Savings & Loan Insurance	150.9	160.3		
Federal Housing Administration	140.2	149.5		
Total	1,072.0	1,182.8	3.59	3.54
Ships and shipping:				
U.S. Maritime Commission	8,361.0	4,073.6		
War Shipping Administration	1,360.0	7,854.1		
Total	9,721.0	11,927.7	32.57	35.69

TABLE E-3.—(*continued*)

Name and type of activity	Assets[1]		Per cent of grand total	
	1944	1945	1944	1945
Transportation:				
Panama R. R. Co.	71.2	68.3		
Inland Waterways Corp.	24.4	24.1		
Total	95.6	92.4	0.32	0.28
Electric power, rural electrification:				
Tennessee Valley Authority	725.6	732.3		
Rural Electrification Administration	133.2	146.1		
Total	858.8	878.4	2.88	2.62
Public works and housing:				
Federal Public Housing Authority	553.8	547.0		
Total	553.8	547.0	1.86	1.63
Catastrophe:				
Disaster Loan Corporation	20.7	18.9	0.07	0.06
War corporations:				
World War I[6]	4.7	0.7		
World War II[7]	327.7	2,291.3		
Total	332.4	2,292.0	1.11	6.85
Other:				
Federal Prison Industries, Inc.	19.9	23.3	0.07	0 07
Tennessee Valley Associated Cooperatives	.3	0.3	0.00	0.00
Virgin Islands Company	1.2[4]	1.2	0.00	0.00

[1] Adjusted for intercorporate duplication; as, for example, by deduction of obligations of other corporations or agencies to RFC.

[2] The RFC has the authority, in certain circumstances, to finance exports of agricultural products.

[3] Banks and trust companies, mortgage loan companies, building and loan associations, insurance companies, certain agricultural financing institutions, railroads, business (except national defense), national defense, foreign governments, self-liquidating projects, catastrophe, drainage, etc.

[4] As of June 30, 1943; see Joint Committee for Reduction of Non-essential Federal Expenditures, Report on Government Corporations.

[5] Including loans to RFC war subsidiaries.

[6] Navy Department (sale of surpluses), U.S. Housing Corporation, U.S. Railroad Administration, U.S. Spruce Production Corporation.

[7] Includes Cargoes Incorporated, Defense Homes Corporation, Defense Plant Corporation, Defense Supplies Corporation, Institute of Inter-American Affairs, Institute of Inter-American Transportation, Inter-American Educational Foundation, Inc., Inter-American Navigation Corporation. Metals Reserve Company, Petroleum Reserves Corporation, Rubber Development Corporation, Rubber Reserve Company, Smaller War Plants Corporation, U.S. Commercial Company, and War Damage Corporation.

SOURCE: Except as otherwise noted, Treasury Bulletin, June 30, 1944 and Treasury Report, 1945.

TABLE E-4.—BORROWING POWER: PAID-IN CAPITAL AND SURPLUS OF GOVERNMENT CORPORATIONS, AS OF MAY 31, 1944 (In millions of dollars)

Name	Amount Authorized, Millions of Dollars
Banks for Cooperatives	1,164.4[1]
Commodity Credit Corporation	3,000.0*[2]
Federal Crop Insurance Corporation	None
Federal Farm Mortgage Corporation	2,000.0*[2]
Federal Intermediate Credit Banks	900.0[3]
Federal Land Banks	9,314.0[4]
Federal Surplus Commodities Corporation	None
Production Credit Corporation	1,227.5[5]
Regional Agricultural CreditCorporation	[6]
Disaster Loan Corporation	None
Export-Import Bank	[7]
Inland Waterways	6.1[8]
Reconstruction Finance Corporation	17,030.2*[9]
Defense Plant Corporation	[10]
Defense Supplies Corporation	[10]
Metal Reserves Company	[10]
Rubber Development Corporation	[10]
Rubber Reserve Company	[10]
Petroleum Reserves Corporation	[17]
U.S. Commercial Company	[10]
War Damage Corporation	[10]
The RFC Mortgage Company	100.0
Federal National Mortgage Association	278.0[11]
Federal Prison Industries	None
Cargoes, Inc.	Ordinary
Smaller War Plants Corporation	None
Defense Homes Corporation	Ordinary
Federal Home Loan Banks	897.0[12]
Federal Public Housing Authority	800.0*[13]
Home Owners' Loan Corporation	[14]
U.S. Housing Corporation	None
U.S. Spruce Corporation	None
Federal Deposit Insurance Corporation	[15]
Panama Railroad Company	[16]
Tennessee Valley Associated Cooperatives	None
Tennessee Valley Authority	61.8*–8.3†
U.S. Maritime Commission	200.0*
Federal Savings and Loan Insurance Corporation	Not limited
Federal Housing Administration	4,000.0*
Rural Electrification Administration	[17]
Virgin Islands Company	General

* Fully guaranteed as to principal and interest.
† On credit of United States.
1 Computed—5⅓ times paid-in capital and surplus.
2 Approval of Secretary of Treasury needed.
3 Computed—10 times paid-in capital and surplus.
4 Computed—20 times paid-in capital and surplus.
5 May borrow the amount (10 times capital and surplus) from Federal Intermediate Credit Banks; may also borrow, with approval of Farm Credit ministration, from other banks.
6 May borrow from RFC, Federal Intermediate Credit Corporations, or other Regional Agricultural Credit Corporations. Approval of Governo Farm Credit Administration needed. No statutory limit.
7 No limit stated: 700 million dollars on loans outstanding at any one time.
8 Computed—25 per cent of total assets.
9 As of Mar. 31, 1944. Approval of Secretary of Treasury needed.
10 May borrow from RFC in amounts deemed necessary by latter.
11 Computed—20 times paid-in capital and surplus.
12 Computed—5 times paid-in capital. As of June 30, 1943. Terms and conditions prescribed by Home Loan Bank Commissioner.
13 Approval of Secretary of Treasury needed.
14 Refunding issues only.
15 Not to exceed 3 times capital stock plus assessments on member banks in 1936.
16 Limited by discretion of Board of Directors.
17 Authorized to borrow stipulated amount from RFC.
SOURCE: Daily Treasury statement; Joint Committee on Reduction of Non-essential Federal Expenditures, Report on Government Corporations; U S. C

Table E-5.—Government Corporations Which Accounted[1] to General Accounting Office for All Expenditures, and Assets of Such Corporations
(In millions of dollars)

Name	Assets[2]
Commodity Credit Corporation	1,725.2
Federal Crop Insurance Corporation	5.8
Federal Farm Mortgage Corporation	648.3
Federal Prison Industries, Inc.	19.9
Federal Public Housing Authority	553.8
Federal Surplus Commodities Corporation	4.2
Home Owners' Loan Corporation	1,571.8
Tennessee Valley Authority	725.6
Virgin Islands Company	1.2
U.S. Maritime Commission[3]	8,361.0
War Shipping Administration	1,360.0
Total	14,976.8
Per cent of total assets of government corporations	50.2

[1] Prior to Control Act of 1945.
[2] Net of intercorporate assets, as of May 31, 1944.
[3] The act creating the commission states that all financial transactions are to be audited by the GAO, *provided* that because of the business activities authorized "the accounting officers shall allow credit for all expenditures shown to be necessary because of the nature of such authorized activities, notwithstanding any existing statutory provision to the contrary" (46 U.S. Code 1117).
Source: Accountability data from Testimony of Lindsay Warren, Controller General of the United States, before Joint Committee on Reduction of Nonessential Federal Expenditures, Part 7, p. 2253. For source of asset figures, see Table E-3.

Table E-6.—Government Corporations Which Accounted[1] to General Accounting Office for Administrative Expenditures Only and Assets of Such Corporations
(In millions of dollars)

Name	Assets[2]
Export-Import Bank of Washington	272.9
Federal Savings and Loan Insurance Corporation	150.9
Smaller War Plants Corporation	144.2[3]
United States Housing Corporation	1.7[3]
United States Spruce Corporation	0.4[3]
Total	570.1
Per cent of total assets of government corporations	1.9

[1] Prior to Control Act of 1945.
[2] Net of intercorporate assets. As of May 31, 1944, except as noted.
[3] As of June 30, 1943. Later data not available for individual World War I corporations.
Source: See Table E-3.

TABLE E-7.—GOVERNMENT CORPORATIONS WHICH DID NOT ACCOUNT AT ALL[1] TO GENERAL ACCOUNTING OFFIC[E] AND ASSETS OF SUCH CORPORATIONS
(In millions of dollars)

Name	Assets[2]
Banks for Cooperatives	213.9
Federal Home Loan Banks	297.1
Federal Intermediate Credit Banks	376.0
Federal Land Banks	1,831.0
Production Credit Corporation	123.1
Regional Agricultural Credit Corporation	64.0
Disaster Loan Corporation	20.7
Reconstruction Finance Corporation	9,999.5
Defense Plant Corporation	*
Defense Supplies Corporation	*
Federal National Mortgage Association	15.6
Metals Reserve Company	*3
The RFC Mortgage Company	32.0
Rubber Reserve Company	*3
Rubber Development Company	*3
United States Commercial Company	*3
War Damage Corporation	*3
Cargoes, Inc.	*3
Institute of Inter-American Affairs	*3
Inter-American Navigation Corporation	*3
Defense Homes Corporation	*3
Federal Deposit Insurance Corporation	775.1
Panama Railroad Company	71.2
Inland Waterways Corporation	24.4
Tennessee Valley Associated Cooperatives	0.3
Total	14,171.6[3]
Per cent of total assets of government corporations	47.5

[1] Prior to Control Act of 1945.

[2] As of May 31, 1944. Net of intercorporate assets.

[3] Petroleum Reserves Corporation and Institute of Inter-American Transportation do not account at all to GAO, but as of June 1943 had no assets.

* War Corporation. Total assets of war corporations as of May 31, 1944, were 327.7 million dollars (net of intercorporate duplication).

SOURCE: Accountability data from Testimony of Lindsay Warren, Controller General of the United States, before Joint Committee on Reduction of N[on]essential Federal Expenditures, Part 7, p. 2253. For source of asset figures, see Table E-3.

TABLE E-8.—GOVERNMENT CORPORATIONS WHICH HAD TO OBTAIN[1] CONGRESSIONAL AUTHORIZATION FOR ADMINISTRATIVE EXPENSES, AND ASSETS OF SUCH CORPORATIONS
(In millions of dollars)

Name	Assets[2]
Commodity Credit Corporation	1,725.2
Federal Crop Insurance Corporation	5.8
Federal Farm Mortgage Corporation	648.3
Export-Import Bank of Washington	272.9
Reconstruction Finance Corporation	9,999.5
The RFC Mortgage Company	32.0
Smaller War Plants Corporation	144.2[3]
Federal Public Housing Authority	553.8
Federal Savings and Loan Insurance Corporation	150.9
Home Owners' Loan Corporation	1,571.8
Tennessee Valley Authority[4]	725.6
U.S. Maritime Commission[5]	8,361.0
Total	24,191.0
Per cent of total assets of government corporations	81.0

[1] Prior to Control Act of 1945.
[2] Net of intercorporate assets. As of May 31, 1944, except as noted.
[3] As of June 30, 1943. Later data not available for individual World War II corporations.
[4] All transactions under current control by Congress.
[5] See footnote 3, Table E-5.
SOURCE: See Table E-7.

TABLE E-9.—GOVERNMENT CORPORATIONS AND CREDIT AGENCIES WHICH ISSUED REPORTS TO CONGRESS[1]

Farm Credit Administration:
- Federal Land Banks
- Federal Farm Mortgage Corporation
- Federal Intermediate Credit Banks
- Production Credit Corporations
- Bank for Cooperatives
- Regional Agricultural Credit Corporation

Rural Electrification Administration
Federal Surplus Commodities Corporation
Reconstruction Finance Corporation
Federal Public Housing Authority
Federal Housing Administration
Federal Deposit Insurance Corporation
Tennessee Valley Authority
Federal Prison Industries Incorporated
U.S. Maritime Commission
War Shipping Administration
Federal Home Loan Banks
Federal Savings and Loan Insurance Corporation
Home Owners' Loan Corporation

[1] Prior to Control Act of 1945.
SOURCE: U.S. Code.

TABLE E-10.—GOVERNMENT CORPORATIONS AND CREDIT AGENCIES WHICH DID NOT ISSUE REPORTS TO CONGRES

Name	Supervised by or Reports to
Disaster Loan Corporation[2]	RFC
Export-Import Bank of Washington	RFC
Inland Waterways Corporation	Department of Commerce
The RFC Mortgage Company	RFC
Federal National Mortgage Association[2]	RFC
War Corporations:	
Defense Plant Corporation[2]	RFC
Metals Reserve Company[2]	RFC
Rubber Development Corporation	RFC
Rubber Reserve Company[2]	RFC
U.S. Commercial Company[2]	RFC
War Damage Corporation[2]	RFC
Petroleum Reserves Corporation	REA
Cargoes, Inc.	Lend-Lease
Institute of Inter-American Affairs	Coordinator of Inter-American Affairs
Institute of Inter-American Transportation	Coordinator of Inter-American Affairs
Inter-American Navigation Corporation	Coordinator of Inter-American Affairs
Smaller War Plants Corporation[2]	War Production Board
Defense Homes Corporation[2]	National Housing Agency
Panama Railroad Company	Independent Establishment
Tennessee Valley Associated Cooperatives	TVA
Commodity Credit Corporation	Department of Agriculture

[1] Prior to Control Act of 1945.
[2] Bureau of Budget, Reviews of Administrative Expenses.
SOURCE: Joint Committee on Reduction of Non-essential Federal Expenditures. Report on *Government Corporations*, 1944.

SUMMARY NOTE TO TABLES E-11—E-19

The Reconstruction Finance Corporation

Tables E-11 through E-15 summarize the year-by-year activities of the Reconstructic Finance Corporation since its organization in 1932 through Mar. 31, 1944. Subsequent da appear in footnotes.

Tables E-12 and E-13 together underscore the most striking fact about the develo ment of the RFC; that is, the extent to which it has outgrown its original functions ar become what some have called the "alter ego of the Treasury"—a conduit of funds to oth government corporations and agencies.

Table E-11 indicates that the importance of the original functions of the RFC h declined considerably since 1932. Some 1,048 million dollars were disbursed to banks ar trust companies in 1932; 31.4 million were disbursed to them in 1938; and 4 million we disbursed to them in 1944. Loans to building and loan associations, to insurance compani mortgage loan companies, and railroads have shown a corresponding decline over the perio In 1932, for example, 128.8 million dollars were disbursed to mortgage loan companies. 1940 3.2 million were disbursed to them, and nothing was disbursed to them from 19 through 1944.

Table E-15 is a summary table and tells us something about the relation betwe the original functions of the RFC and its other functions. Of the total disbursements

the RFC (25,780 million dollars through Mar. 31, 1944), some 6,100 million[1] represent direct loans and advances to the private sector of the economy; that is, to industry, agriculture, banks, trust companies, etc. Some 2,613 million dollars have been lent to other government corporations and agencies and some 13,003 million have gone to national defense. Most of the latter figure, some 12,187 million, represents loans to RFC war subsidiaries. The balance, 3,153 million,[2] represents what the RFC calls "allocations to other government corporations by direction of Congress." These allocations have been made for various purposes: 1.5 billion dollars have gone to relief, 200 million were allocated to the Secretary of the Treasury to be paid by him as capital into the Home Owners Loan Corporation. Various other sums have gone to the Farm Credit Administration, to the latter's subcorporations, to the Commodity Credit Corporation, to the Federal Housing Administrator, etc. A superficial examination of the RFC's reports might indicate that most of these allocations have been repaid; the Mar. 31, 1944, report, for example, indicated that only 487.8 million dollars were then outstanding. In fact, however, the largest part of these allocations has not been repaid. Congress, by the act of Feb. 24, 1938, merely canceled some 2.7 billion dollars' worth of the RFC'S notes then held by the Treasury. In addition, some 100 million worth of these notes has been canceled since 1938. In short, the Treasury borrowed in the open market, the RFC borrowed from the Treasury, the RFC allocated funds to other government corporations and agencies, and to the extent that the RFC made such allocations, the Treasury canceled its notes. The RFC then considered the allocations to have been repaid. In effect, thus, these allocations were made by the Treasury and almost none of them has been repaid.

Table E-16 tells us where the RFC has obtained its funds. Since its organization in 1932 it has obtained some 26 billion dollars. Most of this sum has come from repayments of loans and from borrowings, but small amounts have come from appropriation, sale of property acquired, and interest. These data also are for a period ending Mar. 31, 1944.

In its recent report for the period from organization on Feb. 2, 1932, to Mar. 31, 1946, the RFC shows total disbursements of 30,610 million dollars; repayments and other reductions of 28,835 million; and 1,775 million outstanding on the books of the corporation, besides agreements to make authorizations amounting to 422 million. The total disbursements included for national defense amounted to 21,611 million, but nearly all of this (20,922 million) is offset in the report by "repayments and other reductions" not specified.

The Farm Credit Administration

The Farm Credit Administration was created on May 27, 1933, by an executive order of the President, which provided for the consolidation within one organization of the several federal agencies then dealing in agricultural credit. At the same time, Congress authorized the Farm Credit Administration, (1) to strengthen the long-term farm mortgage credit system (in existence since 1917) and (2) to organize country-wide short-term and cooperative credit systems.

Four commissioners, appointed by the President and responsible to the governor of the Farm Credit Administration, supervise the four main units: the *Land Bank Commissioner* supervises the Federal Land Banks, the joint stock land banks, and the national farm loan

[1] Included in Other. See Table E-11. Total minus self-liquidating projects, earthquake and flood, and relief.

[2] Except for some 650 million dollars spent for PWA securities.

associations; also directs joint-stock land-bank receiverships and administers the emergency farm mortgage loans authorized by the Emergency Farm Mortgage Act of 1933. The *Intermediate Credit Commissioner* supervises and regulates the Federal Intermediate Credit Banks. The *Production Credit Commissioner* supervises the Production Credit Corporation and the production credit associations. The *Cooperative Bank Commissioner* directs the Central Bank for Cooperatives and supervises the district banks for cooperatives.

Twelve farm credit districts have been established and in each is a federal land bank, a federal intermediate credit bank, a production credit corporation, and a bank for cooperatives. Farmers and stock men may obtain *long-term* farm mortgage loans through national farm loan associations which accept applications for Federal Land Bank and Land Bank Commissioner loans. Farmers may obtain *short-term* loans for crop and livestock production from their local production credit association. The Federal Intermediate Credit Banks, established in 1923, do not make direct loans to farmers; they act as banks of discount for production credit associations and other eligible credit organizations. Local farmers' cooperatives obtain loans from the district banks for cooperatives; large regional or national cooperatives obtain loans from the Central Bank for Cooperatives.

Tables E-17 through E-19 summarize the activities of the Farm Credit Administration since its organization in 1933 through 1943. Over the whole period some 9,618 million dollars have been lent directly or indirectly to farmers. This total does not include loans by the Federal Intermediate Credit Banks to other Farm Credit Administration lending institutions. Loans made per annum declined from 1,834.4 million dollars in 1934 to 602.[illegible] million in 1938; in 1939 they began to rise and were 964.4 million in 1942 and 1,186 million in 1943. Repayments were 858 million dollars in 1934 and have been rising almost steadily since: they were 1,094 million in 1938 and 2,209 million in 1943. Repayments over the whole period were 12,988.1 million dollars. Table E-19 summarizes bonds and debentures issued by the Farm Credit Administration by years from 1933–1943; this table indicates that in recent years most of the loans made by the Farm Credit Administration have been financed out of repayments of loans previously made.

	1933[1]	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	Total[4] 1933–1944	Outstanding as of Mar. 31, 1944
Banks & Trust Companies:														
Direct loans[3]	1,035.1	498.1	310.5	101.0	131.8	15.1	31.3	9.8	38.8	1.8	20.9	0.3	2,194.5	46.0
Loans on preferred stock	0.2	16.3	5.7	.....	.....	.....	.....	.....	27.3	.....	....	....	49.5	19.4
Subscriptions: preferred stock	12.5	342.6	282.9	57.8	21.5	15.7	56.4	51.0	.....	2.1	1.0	0.1	843.6	265.4
Purchases: capital notes, etc.	......	222.0	107.6	10.9	.....	0.6	2.5	0.3	.....	.....	....	....	343.9	59.4
Building & Loan Association:														
Direct loans	103.1	11.1	1.0	1.4	0.1	1.3	0.5	2.5	2.7	6.0	4.5	6.1	140.3	2.5
Insurance Companies:														
Loan and subscription preferred stock	78.9	14.8	25.9	0.2	4.3	.....	1.0	.....	.....	.....	12.5	0.2	137.8	32.1
Mortgage Loan Companies:														
Loans, direct	128.8	5.9	70.0	15.7	5.5	15.3	1.2	3.2	.....	.....	....	....	245.6	12.7
Agriculture:														
Livestock Credit Corporation	11.9	0.8	0.1	0.3	.....	.....	.....	.....	.....	.....	....	....	13.1	
Export: agricultural surpluses	.....	11.5	8.7	.....	.....	.....	25.0	2.1	.....	.....	....	....	47.3	
Agriculture: commodities and livestock[5]	1.7	183.8	134.7	284.1	61.4	113.9	7.7	.....	.....	.....	....	....	783.2	
Railroads:														
Loans	331.2	71.2	48.4	38.0	28.3	33.6	83.1	56.2	116.7	26.1	7.4	9.8	850.0	382.6
Business[6]:														
Loans	......	......	11.6	36.0	24.0	19.9	55.0	49.5	19.0	31.5	11.7	7.2	265.4	36.3
Participation	......	......	1.4	3.4	2.1	0.9	4.3	2.7	0.4	0.1	0.2	...	15.5	1.3
Agreements: participation	......	......	......	.....	.....	0.2	1.0	1.2	2.2	1.3	0.1	0.1	5.1	0.5
Fishing industry	......	......	0.1	0.5	0.1	0.1	.....	.....	.....	.....	....	....	0.8	
Other (through mortgage loan companies)	......	5.3	0.3	1.3	.....	.....	.....	0.1	.....	.....	....	....	5.8	
Self-liquidating projects[6]	20.7	63.4	59.1	63.7	47.7	39.3	52.0	81.4	37.6	143.3	6.9	0.7	615.8	36.7
Mining, smelting, etc.[6]	......	......	......	1.1	1.0	1.4	0.8	1.1	1.2	0.5	0.2	....	7.1	3.5
Drainage, local irrigation	......	2.5	18.8	32.3	14.8	11.4	6.4	3.1	2.6	6.5	1.4	0.6	101.4	54.5
Earthquake, flood	......	......	......	.....	3.0	9.0	.....	.....	.....	.....	....	....	12.0	0.6
Miscellaneous:														
Relief and work relief	201.4	98.6	......	.....	.....	.....	.....	.....	.....	.....	....	....	300.0	*
Other	0.4	6.2	24.8	4.7	.....	.....	.....	.....	.....	.....	....	....	36.1	0.4
Total	1,925.9	1,554.1	1,111.4	651.4	345.6	277.7	328.2	264.2	248.5	218.0	66.8	25.1	7,013.8	953.9

[1] Feb. 2, 1932—Mar. 31, 1932. [2] Excluding loans and allocations to and stock purchases from other government corporations and credit agencies. [3] Including loans on assets of closed banks and loans through mortgage loan companies. [4] For bookkeeping reasons minor discrepancies exist between figures shown in this column and corresponding figures in RFC report for Mar. 31, 1944. [5] Includes loans to Commodity Credit Corp. [6] Except national defense. * Of repayments, $282.0 million represent RFC notes held by Treasury canceled under act of Feb. 24, 1938.

SOURCE: Computed from Quartely Reports of the RFC. See note to Table E-12 for data from 1946 report.

Table E-12.—Loans[1] Made by Reconstruction Finance Corporation to Other Government Corporations and Agencies, 1933–1944, Years Ending March 31
(In millions of dollars)

	1933	1934	1935	1936	1937	1938	1930	1940	1941	1942	1943	1944	Total 1933–1944	Outstanding Mar. 31, 1944
Agricultural Financing Institutions:														
Federal Land Banks	18.8	174.8	193.6	....	....	....	....	....	.....	.....	.....	.....	387.2	
Federal Intermediate Credit Banks	9.2	.....	.....	....	....	....	....	....	.....	.....	.....	.....	9.2	
Regional Agricultural Credit Corporation	58.6	111.0	3.6	....	....	....	....	....	.....	.....	.....	.....	173.2	
Joint-stock Land Banks	5.3	9.9	0.5	0.1	1.2	3.0	2.4	1.4	0.9	.....	0.2	1.3	26.2	0.4
Agricultural Credit Corporation	3.9	1.3	0.3	0.1	....	....	....	....	.....	.....	.....	.....	5.6	
Secy. of Agriculture[2]	....	.....	.....	....	....	....	....	....	.....	.....	.....	.....	3.3	
RFC Subsidiaries:														
RFC Mortgage Co.[3]	....	.....	.....	....	29.2	41.5	37.4	23.4	18.3	21.5	30.1	26.6	228.0	91.2
Federal Natl. Mortgage Assn.[3]	....	.....	.....	....	....	....	52.0	44.5	30.0	20.2	11.4	87.3	245.3	48.7
RFC Mortgage Co.[4]	....	.....	.....	....	25.0	....	....	....	.....	.....	.....	.....	25.0	25.0
Federal Natl. Mortgage Assn.[4]	....	.....	.....	10.0	1.0	....	....	....	.....	.....	.....	.....	11.0	11.0
Other:														
Export-Import Banks[2]	....	.....	.....	....	....	....	....	....	25.0	.....	.....	.....	25.0	
Export-Import Banks[4]	....	.....	.....	....	....	....	....	....	176.5	.....	.....	.....	176.5	174.0
Fed. Home Loan Banks[4]	....	.....	.....	....	....	....	....	....	124.7	.....	.....	.....	124.7	124.7
Loan to Foreign Govt	....	.....	.....	....	....	....	....	....	.....	390.0	.....	.....	390.0	327.3
Rural Electrification Administration[5]	....	.....	.....	....	0.6	....	....	....	163.9	62.0	21.0	15.0	262.5	
Secy. of Agriculture[5,6]	....	.....	.....	....	....	....	....	....	82.1	195.4	151.2	91.5	520.2	
Total	95.8	297.0	198.0	10.2	57.0	44.5	91.8	69.3	621.4	689.1	213.9	221.7	2,612.9	802.3[7]

[1] Including stock purchase. [2] Cotton. [3] Loans. [4] Stock subscriptions. [5] By direction of Congress. [6] Farm rehabilitation & tenancy. [7] Accounts outstanding on loans to Rural Electrification Administration and Secretary of Agriculture not included.

Source: Computed from RFC Quarterly Reports.

Note: The RFC report for Mar. 31, 1946, shows the following items substantially changed in the totals for 1933–1946: RFC Mortgage Co., 254.3; Rural Electrification Administration, 349.2; and Secretary of Agriculture, 693.0.

In Table E-11, changes in group totals in the 1946 report are insignificant except in loans to business, which are shown as 441.8 for the entire period 1933–1946, not including loans for aid in national defense.

TABLE E-13.—ALLOCATIONS, ETC., TO OTHER GOVERNMENT AGENCIES BY DIRECTION OF CONGRESS, 1932–1944, RECONSTRUCTION FINANCE CORPORATION, YEARS ENDING MARCH 31
(In millions of dollars)

	1932 to 1937	1938	1939	1940	1941	1942	1943	1944	Total 1932–1944	Outstanding as of Mar. 31, 1944
Purchases of PWA securities	489.3	81.4	28.6	25.7	15.6	12.0	....	....	652.6	82.2
Direct relief	1,500.0	.....	....	....	....	....	....	....	1,500.0	
Other:										
Secretary of Agriculture—Crop Loans	115.0	.....	....	....	....	....	....	....	115.0	
Capital of Regional Agricultural, Credit Agencies	44.5	.....	....	....	....	....	....	....	44.5	
Governor of Farm Credit Administration	40.5	.....	....	....	....	....	....	....	40.5	
Regional Agricultural Credit Corp.—Expenses	3.1	.....	....	....	....	....	....	....	3.1	
Regional Agricultural Credit Corp.—Expenses	12.0	0.9	0.7	0.5	0.4	0.4	....	....	18.1	
Secretary of Treas.—Capital of Federal Home Loan Banks	120.0	.....	4.7	....	....	....	....	....	124.7	
Land Bank Cnmmissioner—Loans to Joint-Stock Land Banks	2.6	.....	....	....	....	....	....	....	2.6	
Land Bank Commissioner—Loans to farmers	145.0	.....	....	....	....	....	....	....	145.0	
Federal Farm Mortgage Corporation	55.0	.....	....	....	....	....	....	....	55.0	
Secretary of Treas.—Capital of Home Owners Loan Corporation	200.0	.....	....	....	....	....	....	....	200.0	
Federal Housing Administrator	50.0	8.5	10.6	10.4	4.7	10.0	3.0	0.5	97.7	
Commodity Credit Corporation—Stock purchase	97.0	.....	....	....	....	....	....	....	97.0	
Disaster Loan Corporation—Stock purchase	2.0	8.0	4.0	10.0	....	....	....	....	24.0	
Subtotal	2,876.0	98.8	48.6	46.6	20.7	22.4	3.0	0.5	3,120.1[1]	487.8[2]
Interest on notes issued for allocations and relief advances	22.4	10.8	....	....	....	....	....	....	33.2	
Total	2,898.4	109.6	48.6	46.6	20.7	22.4	3.0	0.5	3,153.3	487.8

[1] Of the difference between amount disbursed and amount repaid 2800 million dollars represents cancelation by the Treasury of the RFC's notes. [2] Includes amounts outstanding on loans to REA and Secy. of Agriculture—farm tenancy and rehabilitation.

SOURCE: Computed from RFC. Quarterly Reports.

TABLE E-14.—DEFENSE ACTIVITIES OF THE RECONSTRUCTION FINANCE CORPORATION, 1941–1944, YEARS ENDING MARCH 31
(In millions of dollars)

	1941	1942	1943	1944	Total[3]	Outstanding as of Mar. 31, 1944
National defense.	956.2[1]	698.4[1]	5,022.4[1]	6,326.0[1]	13,003.0[2]	7,294.8[4]

[1] Excludes loans to Defense Homes Corporation and purchase of stock by RFC war corporations. These items are included in Loans to Government Corporations.

[2] Includes loans to RFC war subsidiaries of 12,186.5 million dollars (most of which was disbursed in 1942, 1943, and 1944) of which 6,863.1 million was outstanding as of Mar. 31, 1944.

[3] This amount had increased to 21,611.0 million by Mar. 31, 1946, while the amount outstanding [4] had been reduced to 689.3 million.

SOURCE: Computed from RFC Quarterly Reports.

TABLE E-15.—SUMMARY: RFC DISBURSEMENTS, 1933–1944, YEARS ENDING MARCH 31

	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	Total	Outstanding Mar. 31, 1944
1. Loans to other government corp. and agencies[3]	95.8	297.0	198.0	10.2	57.0	44.5	91.8	69.3	621.4	689.1	213.9	221.7	2,612.9	802.3
2. Allocations to other government agencies by direction of Congress[3].	. . . . . .	. . . . . .	. . . . . .	. . . .	2,898.4[1]	109.6	48.6	46.6	20.7	22.4	3.0	0.5	3,153.3	487.8[5]
3. National defense[2].	. . . . . .	. . . . . .	. . . . . .	. . . .	. . . .	. . . .	. . . .	. . . .	956.2	698.4	5,022.4[1]	6,326.0	13,003.0[4]	7,294.8
4. Other.	1,925.9	1,554.1	1,111.4	651.4	345.6	277.7	328.2	264.2	248.5	218.0	66.8	25.1	7,013.8	953.9
Total.	2,021.7	1,851.1	1,309.4	661.6	3,301.0	431.8	468.6	380.1	1,846.8	1,627.9	5,306.1	6,573.3	25,783.0	9,538.6[6]

[1] 1932–1937: annual figures before 1938 not available.

[2] Includes loan to RFC war subsidiaries of 12,186.5 million dollars.

[3] Does not include loans to RFC war subsidiaries.

[4] Includes loan of 61.0 million dollars to Defense Homes and stock purchases of 26.0 million in war subsidiaries.

[5] Includes accounts outstanding on loans to Rural Electrification Administration and Secretary of Agriculture (farm tenancy and rehabilitation).

[6] Some 2.8 billion dollars' worth of RFC notes held by the Treasury canceled at the direction of Congress.

[7] NOTE: The total disbursements as of March 31, 1946, had increased to 30,610 million dollars, including national defence, 21,611 million.

Table E-16.—Reconstruction Finance Corporation, Major Sources of Funds, 1933–1944[1]
(In millions of dollars)

Year	Appropriation[1]	Repayment of loans[1]	Notes issued (net)[1]	Sale of property acquired[1]	Interest, discounts, dividends[2]	Total
1933	500.0	418.7	1,220.0	...	....	2,138.7
1934	.....	873.1	1,946.0	...	62.2	2,881.3
1935	.....	1,339.8	639.6	...	82.6	2,062.0
1936	.....	649.9	620.2	...	95.2	1,365.3
1937	.....	1,266.5	−540.4	...	75.1	801.2
1938	.....	432.8[5]	52.6[5]	3.9	55.1	544.4
1939	.....	500.8[5]	−36.8[5]	5.4	65.8	535.2
1940	.....	584.7[5]	−85.7[5]	4.7	54.9	558.6
1941	.....	285.6[5]	269.3[5]	2.9	50.0	607.8
1942	.....	877.9	1,675.2	3.0	67.4	2,623.5
1943	.....	2,523.5	2,605.2	2.4	75.1	5,206.2
1944	.....	3,688.2	2,624.6	2.3	[3]	6,315.1[4]
Total						25,639.3

[1] Years ended Mar. 31.
[2] Years ended June 30.
[3] Not available.
[4] Excludes interest, etc.
[5] Cancelation of RFC securities held by Treasury deducted from repayments and added to notes issued in order to get net cash transactions.
Source: Computed from RFC Quarterly Reports. Figures on interest payments from Bureau of Budget.

TABLE E-17.—LOANS AND ADVANCES: FARM CREDIT ADMINISTRATION, 1933–1943, YEARS ENDING DEC. 31
(In millions of dollars)

	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Production Credit Associations	.....	92.9	188.8	226.2	286.6	302.6	321.0	349.5	418.2	477.7	501.2
Purchased from Reg. Agric. Credit Corps	.....	14.4	7.5	1.9	.....	.....	.....	....	......	......	......
Total	.....	107.1	196.3	228.1	286.6	302.6	321.0	349.5	418.2	477.7	501.2
Fed. Intermediate Credit Banks Cooperative Associations	27.9[5]	57.4	44.5	3.8	5.1	2.7	4.2	4.6	5.7	9.4	5.0
Financing Institutions	250.8[5]	348.5	369.6	377.9	444.5	461.4	467.8	507.7	641.6	806.6	922.4
Total	278.7[5]	405.9	414.1	381.7	449.6	464.1	472.0	512.3	647.3	816.0	927.4
Banks for Cooperatives: Central	26.1	21.7	28.8	34.8	38.5	37.0	26.0	42.5	83.3	131.2	......
District	1.0	18.7	40.2	46.5	69.1	66.4	66.3	66.1	121.6	168.5	......
Total	27.1	40.4	66.3[7]	81.3	97.6[7]	94.9[7]	83.4[7]	101.2[7]	181.6[7]	252.4[7]	398.6
Federal Land Banks[1]: Land Banks	151.6[4]	730.4	248.7	109.2	63.1	51.4	51.6	64.3	65.1	54.0	61.9
Land Bank Commissioner	70.8	553.1	196.4	77.3	40.0	29.4	27.4	36.7	37.5	28.5	30.5
Total	221.4	1,283.5	445.1	186.4	103.1	80.8	79.0	100.9	102.6	82.5	92.4
Emergency Crop and Feed Loans	57.4[9]	37.9	57.4	16.6	32.5	19.6	15.1	19.5	18.3	19.7	19.3
Drought Relief Loans	.....	32.6	39.4	.....	.....	.....	.....	......	......	......	......
Regional Agricultural Credit Corporation	223.1[2]	140.6[2]	22.4[6]	9.8[8]	5.7[8]	3.0[8]	2.3[8]	1.8[8]	5.9[8]	7.6	73.3
Agricultural Marketing Act Revolving Fund	46.7[3]	9.6	7.4	20.4	5.9	7.9	1.2	3.1	4.0	5.0	1.4
Total	854.4	2,057.6	1,248.4	924.3	981.0	972.9	974.0	1,088.3	1,377.9	1,660.9	2,013.6
Less loans by FICB to other FCA corps	109.7	223.6	252.7	271.7	343.0	370.9	381.2	419.1	539.3	696.5	827.5
Net total	744.7	1,834.0	995.7	652.6	538.0	602.0	592.8	669.2	838.6	964.4	1,186.1

SOURCE: Annual Report of the Farm Credit Administration.

1 And Land Bank Commissioner.

2 Including renewals.

3 From July 1, 1929 through Dec. 31, 1932—1,109.2 million dollars.

4 1917 through Dec. 31, 1932—1,725.2 million dollars (Land Bank Commissioner loans close not available).

5 1923 through 1932; cooperative associations—815.4 million dollars, financing institutions—819.2 million; total—1,634.6 million.

6 Placed in liquidation May 1, 1934, excluding renewals.

7 Adjusted to avoid duplication arising from participation by district banks in loans of Central Bank. Participation loans eliminated.

8 Additional disbursement on loans—payments on commitments made before liquidation began.

9 1921 through 1932—134.8 million dollars.

NOTE: During the year ending June 30, 1945, loans were made by Production Credit Associations amounting to 500.3 million; by Intermediate Credit Banks, 873.6 million; by Banks for Cooperatives, 407.5 million; by Federal Land Banks and Land Bank Commissioner, 120.4 million; by the groups of the last four organizations in the table, 102.1 million. After deducting the loans made by FICB to the others, the net total was 1,113.2 million.

Table E-18.—Repayment of Loans, FCA, 1933–1943
(In millions of dollars)

	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Production Credit Association	.....	46.3	163.1	217.0	263.6	292.8	314.5	331.7	402.8	480.7	487.1
Banks for Cooperatives	8.4	31.2	44.2	61.7	79.6	95.0	94.6	102.8	142.9	221.2	308.0
Federal Intermediate Credit Banks	129.2	366.1	448.9	363.8	414.6	468.6	474.4	490.2	602.3	769.4	894.9
Land Banks	47.5	47.3	92.6	116.9	92.0	104.5	129.1	117.8	151.9	215.6	306.8
Land Bank Commissioner	0.1	7.0	18.5	35.2	64.1	89.2	89.4	79.3	89.0	113.1	136.5
Agricultural Marketing Revolving Fund	41.8	112.5	17.9	11.0	28.7	15.2	4.4	7.1	3.6	9.3	6.6
Regional Agricultural Credit Corporation	102.9	198.1	134.4	52.8	28.3	10.2	7.8	6.9	7.2	9.3	45.3
Emergency Crop Loans	56.9	50.0	28.9	18.9	21.9	18.5	16.0	17.3	19.2	24.3	24.1
Total	386.8	858.5	948.5	877.3	992.8	1,094.0	1,130.2	1,153.1	1,418.9	1,842.9	2,209.3

Source: Computed from FCA annual reports by subtracting loans outstanding in given year from loans outstanding in preceding year and adding loans closed in given year.

Note: Repayments for the year ending June 30, 1945, amounted to 2,192.5 million, distributed as follows: PCA, 502.4; B.C., 413.0; F.I.C.B., 878.7; Land Banks and L.B.C., 364.6; Agr. Mar. Rev. Fund, 1.5; RACC, 9.0; Emergency Crop Loans, 23.3.

TABLE E-19.—BONDS AND DEBENTURES ISSUED BY THE FARM CREDIT ADMINISTRATION (NET), BY YEARS
(In millions of dollars)

Year	Federal land banks	Intermediate credit banks	Federal farm mortgage corporation
1934	592.2	36.8	979.6
1935	143.6	−33.3	407.7
1936	36.6	12.9	34.9
1937	−167.1	31.0	−7.3
1938	−35.3	−6.3	−27.1
1939	−19.3	38.5	−108.4
1940	−23.6	−6.7	−10.0
1941	−14.4	35.5	
1942	−172.2	65.5	−292.6
1943	−170.8	23.7	−47.0

SOURCE: Computed from the annual reports of the Farm Credit Administration.

TABLE E-20[1]

(In millions of dollars)

Farm Credit Administration

Bank for Cooperatives. Created under the Farm Credit Act of 1933 (12 *U.S.C.* 1134) for the purpose of lending money to farm and farm servicing cooperatives. *Assets:* 233.3 million. *Liabilities:* 21.6 million. *Surplus owned by U. S.:* 28.3 million. *Loans outstanding:* 151.6 million.

Federal Farm Mortgage Corporation. Created under the Federal Farm Mortgage Act of 1934 (12 *U.S.C.* 1020) for the purpose of making mortgage loans on farm property. *Assets:* 648.9 million. *Liabilities:* 538.0 million. *Surplus owned by U. S.:* 10.9 million. *Loans outstanding:* 370.1 million.

Federal Intermediate Credit Banks. Created under the Agricultural Credit Act of 1923 (12 *U. S. C.* 1021) for the purpose of making short-term loans to financing institutions (government and private) engaged in lending funds to farmers. *Assets:* 376.0 million. *Liabilities:* 286.1 million. *Surplus owned by U. S.:* 30.0 million. *Loans outstanding:* 296.8 million.

Federal Land Banks. Created under the Federal Farm Loan Act of 1916 (12 *U.S.C.* 672) for the purpose of making long-term first-mortgage loans on improved farm lands. *Assets:* 1831.8 million. *Liabilities:* 1366.2 million. *Surplus owned by U. S.:* 135.1 million. *Loans outstanding:* 1257.7 million. Government interest being retired.

Production Credit Corporations. Created under the Farm Credit Act of 1933 (12 *U.S.C.* 1131 d) for the purpose of organizing and financing production credit associations; the latter in turn make short-term loans to farmers. *Assets:* 123.1 million. *Liabilities:* 0.3 million. *Surplus owned by U. S.:* 7.8 million. *Loans outstanding:* None.

Regional Agricultural Credit Corporations: Created under the Emergency Relief and Reconstruction Act of 1932 (12 *U.S.C.* 1148) for the purpose of making emergency short-term loans to farmers and stockmen. *Assets:* 64.0 million. *Liabilities:* 1.7 million. *Surplus owned by U. S.:* 17.8 million. *Loans outstanding:* 20.6 million. These corporations have been discontinued or merged in the RACC of Washington, D. C.

[1] Except as otherwise noted, financial data are as of May 31, 1944.

epartment of Agriculture

Commodity Credit Corporation. Created under the National Industrial Recovery Act of 1933 (15 *U.S.C.* 702) for the purpose of stabilizing farm prices and assuring adequate reserve supplies of farm products. Has engaged also in subsidy and lend-lease activities. *Assets:* 1725.4 million. *Liabilities:* 1936.4 million. *Deficit:* 311.0 million. *Loans outstanding:* 391.1 million.

Federal Crop Insurance Corporation. Created under the Federal Crop Insurance Act of 1938 (7 *U.S.C.* 1503) for the purpose of insuring farm crops. *Assets:* 8.8 million. *Liabilities:* 5.6 million. *Deficit:* 36.8 million. *Loans outstanding:* None. In liquidation.

Federal Surplus Commodities Corporation.[1] Incorporated in 1933 under laws of Delaware by the FERA Administrator and the Secretary of Agriculture for the purpose of disposing of surplus agricultural commodities. Purchased general commodities for lend-lease, salvages timber in Texas, and provides emergency supplies to territories and possessions. *Assets:* 4.2 million. *Liabilities:* 1.8 million. *Surplus:* None. *Loans outstanding:* None. In liquidation.

Rural Electrification Administration. Created under Emergency Relief Appropriation Act of 1935 (7 *U.S.C.* 901–914) for the purpose of financing rural electricity distribution systems. *Assets:* 366.6 million. *Liabilities:* 233.4 million. *Surplus:* Undetermined. *Loans outstanding:* 350.2 million.

epartment of Commerce

Inland Waterways Corporation. Created by Act of Congress (49 *U.S.C.* 151) in 1924 for the purpose of operating the Federal Barge Lines and Warrior River Terminal. *Assets:* 24.4 million. *Liabilities:* 1.4 million. *Surplus owned by U. S.:* 11.0 million. (Apr. 30, 1944) *Loans outstanding:* 0.4 million.

econstruction Finance Corporation

Created by Act of Congress in 1932 (15 *U.S.C.* 601) for the purpose of lending money to agriculture, railroads, and banks. Was engaged extensively in war activities. *Assets:* 10,075.0 million. *Liabilities:* 9,363.8 million. *Surplus owned by U. S.:* 386.2 million. *Loans outstanding:* 1,348.1 million. Includes Electric Home and Farm Authority.

NOTE: RFC now (1946) has six subsidiary corporations: RFC Mortgage Company, Federal National Mortgage Association, War Damage Corporation, U. S. Commercial Company, Rubber Development Corporation, and War Assets Corporation (in liquidation), besides others now absorbed as noted under their names.

Federal National Mortgage Association. Organized by officers of the RFC under the authority of the National Housing Act for the purpose of discounting Title II National Housing Act insured mortgages (12 *U.S.C.* 1701). *Assets:* 68.0 million. *Liabilities:* 49.0 million. *Surplus owned by U. S.:* 3.9 million. *Loans outstanding:* 60.5 million.

The RFC Mortgage Company. Created under an act extending the functions of the RFC (15 *U.S.C.* 606) for the purpose of making mortgage loans on incomes producing real property. *Assets:* 125.9 million. *Liabilities:* 97.6 million. *Surplus owned by U. S.:* 3.3 million. *Loans outstanding:* 111.6 million.

Disaster Loan Corporation. Created by Act of Congress in 1937 (15 *U.S.C.* 605 K-1) for the purpose of providing funds for rehabilitation of property damaged by catastrophe. *Assets:* 20.7 million. *Liabilites:* 0.1 million. *Deficit:* 3.4 million. *Loans outstanding:* 2.3 million. Dissolved and functions transferred to RFC.

epartment of Interior

The Virgin Islands Company.[2] Organized by the Secretary and Assistant Secretary of the Interior and the Governor of the Virgin Islands in 1934 for the purpose of operating factories, mills, farms, and other enterprises on the islands. *Assets:* 1.2 million. *Liabilities:* 0.7 million. *Surplus:* 0.6 million. *Loans outstanding:* None.

epartment of Justice

Federal Prison Industries Incorporated. Created under a specific statute passed in 1934 (18 *U.S.C.* 744 i) for the purpose of providing employment and training of prison inmates. *Assets:* 19.9 million. *Liabilities:* 0.5 million. *Surplus:* 14.6 million. *Loans outstanding:* None.

[1] Financial data as of June 30, 1943.
[2] Financial data as of June 30, 1943.

National Housing Agency

Federal Home Loan Banks. Created by the Federal Home Loan Banks Act (12 *U.S.C.* 1423) for the purp of providing credit to home-financing institutions. *Assets:* 297.1 million. *Liabilities:* 93.9 million. *Surp owned by U. S.:* None. *Loans outstanding:* 71.6 million.

Federal Public Housing Authority.[1] Created under the U. S. Housing Act of 1937 (42 *U.S.C.* 1403) the purpose of helping public housing bodies provide low-rental housing. Administers certain housing a resettlement projects. *Assets:* 553.8 million. *Liabilities:* 407.6 million. *Surplus owned by U. S.:* 14.2 m lion. *Loans outstanding:* 317.6 million.

Federal Savings and Loan Insurance Corporation. Created under the National Housing Act (12 *U.S.* 1725) for the purpose of insuring the accounts of savings and loan associations. *Assets:* 150.9 milli *Liabilities:* 2.3 million. *Surplus owned by U. S.:* 48.7 million. *Loans outstanding:* None.

Home Owners' Loan Corporation. Created under the Home Owners' Loan Act of 1933 (12 *U.S.C.* 1463 for the purpose of making long-term emergency mortgage loans to home owners. *Assets:* 1,572.0 milli *Liabilities:* 1,505.4 million. *Deficit:* 133.4 million. *Loans outstanding:* 1,239.6 million. In liquidation.

Independent Corporations

Export-Import Bank of Washington. Created under the National Industrial Recovery Act (15 *U. S. C.* 70 in 1934 for the purpose of lending funds to facilitate foreign trade. *Assets:* 279.9 million. *Liabilities:* 8 million. *Surplus owned by U. S.:* 21.1 million. *Loans outstanding:* 220.2 million.

Federal Deposit Insurance Corporation. Created under the Banking Act of 1933 (12 *U.S.C.* 264 a) for purpose of insuring the accounts of bank depositors. *Assets:* 775.1 million. *Liabilities:* 485.8 million. *Su plus:* None. *Loans outstanding:* 25.7 million.

Panama Railroad Company. Created privately and acquired by purchase in 1902. Operates railroads, stea ship lines, farms, hotels, and other enterprises in the Canal Zone. *Assets:* 71.4 million. *Liabilities:* 16.3 m lion. *Surplus owned by U. S.:* 48.1 million. *Loans outstanding:* None.

Tennessee Valley Authority. Created by the Tennessee Valley Authority Act of 1933 (16 *U.S.C.* 831) the purpose of providing navigation and flood control on, and water power from, the Tennessee River a its tributaries. Program of rehabilitation of the Tennessee Valley. *Assets:* 727.7 million. *Liabilities:* 8 million. *Surplus:* None. *Loans outstanding:* None.

Tennessee Valley Associated Cooperatives. Created by the Board of Directors of the TVA in 1934 for purpose of financing cooperatives in the Tennessee Valley area. *Assets:* 0.3 million. *Liabilities:* None. *Su plus:* 0.3 million. *Loans outstanding:* 0.2 million.

U. S. Maritime Commission. Created by the Merchant Marine Act of 1936 (46 *U.S.C.* 1111) for vari purposes, among them the insurance of ship mortgages. *Assets:* 8,362.1 million. *Liabilities:* 1,388.7 milli *Surplus:* Undetermined. *Loans outstanding:* 14.1 million.

War Corporations (World War I)[2]

U. S. Housing Corporation, U. S. Spruce Corporation. In liquidation. *Assets:* 4.8 million. *Liabiliti* 0.1 million. *Deficit:* 23.9 million. *Loans outstanding:* None.

War Corporations (World War II)[3]

Defense Plant Corporation. Created by the RFC in 1940 under the latter's war powers for the purpose dealing in plants and facilities to be used for production of war materials. Dissolved and functions tra ferred to RFC, 1945.

Defense Supplies Corporation. Created by the RFC in 1940 under the latter's war powers for the purp of producing, buying, storing, and otherwise dealing in strategic and critical materials. Dissolved a functions transferred to RFC, 1945.

Metals Reserve Company. Created by the RFC in 1940 under the latter's war powers for the purpose producing, buying, and otherwise dealing in critical and strategic materials. Dissolved and functions tra ferred to RFC, 1945.

[1] Formerly U. S. Housing Authority.

[2] Financial data include also assets, etc., of Navy Department (sale of surpluses) and U. S. Railroad Administration.

[3] *Total Assets:* 9,139.4 million. *Total Liabilities:* 9,954.1 million. *Deficit:* 1,015.2 million. *Loans Outstanding:* 222.4 milli Financial data for individual war corporations not available. Assets, etc., of War Shipping Administration not included.

Rubber Reserve Company. Created by the RFC in 1940 under the latter's war powers for the purpose of acquiring crude rubber, keeping establishment of synthetic rubber plants, acquiring scrap rubber. Dissolved and functions transferred to RFC, 1945.

Rubber Development Corporation. Incorporated privately in Delaware; later acquired by RFC (February 1943). Develops rubber in Latin America. Under Foreign Economic Administration until 1945, then returned to RFC.

U. S. Commercial Company. Created by RFC in 1942 under the latter's war powers for the purpose of buying, storing, selling, and otherwise dealing in strategic and critical materials. Under Foreign Economic Administration until 1945, then turned over to RFC.

War Damage Corporaton. Created by the RFC, under the latter's war powers, for the purpose of providing insurance against loss of or damage to property due to enemy attack. Under RFC.

Cargoes, Incorporated. Privately incorporated in 1941, taken over by RFC in 1942, under latter's war powers. Experimental design and construction of ships. In executive office of the President. Liquidated 1945.

Institute of Inter-American Affairs. Created in 1942 by Coordinator of Inter-American Affairs to carry out programs in Western Hemisphere, of health, sanitation, food production, and education. Under the Coordinator.

Institute of Inter-American Transportation. Created in 1943 by the Coordinator of Inter-American Affairs to improve methods of transportation in the Western Hemisphere. Under the Coordinator.

Inter-American Educational Foundation, Inc. Created in 1943 by the Coordinator of Inter-American Affairs to pursue an inter-American educational program. Under the Coordinator.

Inter-American Navigation Corporation. Created in 1942 by the Coordinator of Inter-American Affairs to construct, buy, etc., wooden vessels to supplement ocean shipping facilities in the Western Hemisphere. Under the Coordinator. Now in liquidation.

Prencinradio, Incorporated. Created in 1942 by the Coordinator of Inter-American Affairs for the purpose of encouraging wider distribution of information in the American Republics. Under the Coordinator.

Smaller War Plants Corporation. Created under an act of June 11, 1942, (50 *U.S.C.* 1104) for the main purpose of determining the best war use to which small business can be put. In liquidation.

Defense Homes Corporation. Organized in 1940 by officers of the RFC at direction of the Federal Loan Administrator, for the purpose of building and operating houses in war plant areas. Under the National Housing Agency.

War Shipping Administration. Created in 1942 by executive order under the first War Powers Act for various purposes, among them the provision of war risk insurance and the purchase, operation, control, etc., of nonmilitary vessels. *Assets:* 1,360.4 million. *Liabilities:* 693.6 million. *Surplus:* Undetermined. *Loans outstanding:* None.

The following additional corporations are in existence,[1] but financial data on them are not available.

Petroleum Reserves Corporation. Created by RFC. Changed to War Assets Corporation, in liquidation. Surplus property functions transferred to War Assets Administration.

American President Line, Ltd. A Delaware corporation partly owned by the U. S. Maritime Commission.

Colonial Mica. Under Metals Reserve Company, dissolved.

Copper Recovery Corporation. Under Metals Reserve Company, dissolved.

Steel Recovery Corporation. Under Metals Reserve Company, dissolved.

War Emergency Pipe Lines, Incorporated. Under Defense Supplies Corporation, dissolved.

War Hemp Industries, Inc. Under Commodity Credit Corporation, dissolved.

[1] See hearings on Independent Offices Appropriations Bill for 1945, Committee on Appropriations, House, 78th Congress, 2nd Session, pp. 807–808.

SECTION F

TABLE F-1.—WAR EXPENDITURES
(Including net outlays of government corporations)

Period	Average annual rate, billions of dollars	Estimated per cent of total		
		Munitions including ships	Pay subsistence[1]	War construction
Preparedness: July 1940–November 1941	9.8	50	30	20
Defensive war: December 1941–October 1942	45.7	56	22	22
Aggressive deployment: November 1942–December 1943	83.5	59	28	13
Offensive war: January 1944–June 1944[2]	97.0	64	30	6
July 1944–June 1945 (fiscal year 1945)	90.0	63	33	4

[1] Including also agricultural lend-lease and other civilian war activities.

[2] On basis of 92 billion dollars for fiscal year 1944.

NOTE: Actual expenditures in defense and war activities during the fiscal years 1941–1946 were in billions of dollars; 1941, 6.3; 1942, 26.0; 1943, 7 1944, 87.0; 1945, 90.0; 1946 (est.), 48.8.

SOURCE: *Federal Reserve Bulletin*, February 1944; Treasury Annual Reports (actual expenditures).

TABLE F-2.—GENERAL BUDGET SUMMARY
(In billions of dollars)

Classification	Fiscal year		
	1945	1944	1943
Receipts:			
Direct taxes on individuals	19.8	20.3	7.0
Direct taxes on corporations	16.4	15.3	9.9
Other	10.3	8.5	5.4
Net receipts	46.5	44.1	22.3
Expenditures:			
War activities[1]	90.0	87.0	72.1
Interest on the public debt	3.6	2.6	1.8
Veterans' pensions and benefits	2.0	0.7	0.6
Refunds	1.7	0.3	0.1
Other activities	3.1	3.1	3.6
Total expenditures	100.4	93.7	78.2
Excess of expenditures	53.9	49.6	55.9
Expenditures by government corporations and agencies[1]	3.1	6.1	1.9

[1] In addition to war expenditures under budget accounts the figures for government corporations and agencies include 3.0 billion dollars in fiscal y 1943, 3.5 billion in 1944, and 1.8 billion in 1945.

SOURCE: U.S. Budgets, 1945, 1946, 1947.

Table F-3.—Debt of the United States and Amounts Held by Federal Reserve Banks, All Banks, All Member Banks[1]
(In millions of dollars)

	Total U. S. direct and fully guaranteed debt	Securities held by banks					
		Federal reserve banks		All banks		Member banks	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
39, June	45,890	2,551	5.6	18,743	40.8	13,777	30.0
December	47,563	2,484	5.2	19,402	40.8	14,328	30.1
40, June	48,466	2,466	5.1	19,666	40.6	14,722	30.4
December	50,926	2,184	4.3	20,983	41.2	15,823	31.1
41, June	55,321	2,184	3.9	23,521	42.5	18,078	32.7
December	64,255	2,254	3.5	25,488	39.7	19,539	30.4
42[2], June	76,970	2,645	3.4	30,301	39.4	24,098	31.3
December	112,453	6,189	5.5	45,932	40.8	37,546	33.4
43[2], June	140,788	7,202	5.1	57,748	41.0	46,980	33.4
December	170,102	11,543	6.8	65,932	39.4	52,948	31.1
44[3], June	202,519	14,901	7.4	75,737	37.4	60,339	29.8
December	232,100	18,846	8.1	85,885	37.0	67,685	29.2
45[3], June	259,091	21,792	8.4	93,657	36.1	73,239	28.3
December	278,668	24,262	8.7	101,295	36.1	78,338	28.1
46[3], June	268,578	23,783	8.9	96,100	35.8	72,272	26.9

[1] *Banking and Monetary Statistics*, pp. 509–512, 343, 18, 74.
[2] *Federal Reserve Bulletin*, July 1944, pp. 690, 703–704.
[3] *Federal Reserve Bulletin*, September 1946.

Table F-4.—Ownership of the Public Debt
(In billions of dollars)

	Increase in fiscal years ending June 30					Outstanding on June 30	
	1941	1942	1943	1944	1945	1945	1946
overnment agencies and trust funds	1.4	2.1	3.7	4.8	5.8	24.9	29.1
utual savings banks	0.3	0.5	1.4	2.0	2.3	9.6	11.5
surance companies	0.6	2.1	3.9	4.2	5.4	22.7	25.3
ther investors	1.3	10.5	23.3	26.9	19.7	93.7	95.7
Total nonbank investors	3.6	15.2	32.3	37.9	33.2	150.9	161.16
ommercial banks	3.5	6.3	26.0	16.0	15.7	84.1	83.3
ederal reserve banks	−0.3	0.5	4.6	7.7	6.9	21.8	23.8
Total banking system	3.3	6.8	30.6	23.7	22.6	105.9	107.1
Total interest-bearing direct and guaranteed debt	6.9	21.8	63.0	61.6	55.7	256.8	268.7

Source: *Federal Reserve Bulletins.*

TABLE F-5.—LOANS AND INVESTMENTS, ALL BANKS IN UNITED STATES
(In millions of dollars)

	Total loans and investments	Loans	Investments	U. S. government obligations			Other securities
				Amount	Per cent of total loans and investments	Per cent of total investments	
1939[1], June	49,616	21,320	28,296	18,743	37.8	66.2	9,553
December	50,885	22,169	28,716	19,402	38.1	67.6	9,314
1940[2], June	51,336	22,340	28,996	19,666	38.3	67.8	9,330
December	54,170	23,751	30,419	20,983	38.7	69.0	9,436
1941[2], June	57,946	25,311	32,635	23,521	40.6	72.1	9,114
December	61,101	26,616	34,485	25,488	41.7	73.9	8,997
1942[2], June	64,009	25,081	38,928	30,301	47.3	77.8	8,627
December	78,137	23,915	54,222	45,932	58.8	84.7	8,290
1943[2], June	87,881	22,241	65,640	57,748	65.7	88.0	7,892
December	96,971	23,596	73,375	65,941	68.0	90.0	7,434
1944[2], June	108,707	25,421	83,284	75,737	69.7	90.9	7,547
December[3]	119,461	26,015	93,446	85,885	71.9	91.9	7,561
1945[3], June	129,639	27,979	101,661	93,657	72.2	92.1	8,004
December	139,750	30,500	109,250	100,700	72.1	92.2	8,550
1946[3] June	136,820	31,500	105,320	96,100	70.2	91.2	9,220

[1] *Banking and Monetary Statistics*, p. 18.
[2] *Federal Reserve Bulletin*, December 1944, p. 1206.
[3] *Federal Reserve Bulletin*, September 1946.

TABLE F-6.—BANK DEPOSITS AND MONEY IN CIRCULATION
(In millions of dollars)

End of month	Bank deposits[1]		Money in circulation
	All banks	All member banks	
1939, June	55,990	38,027	7,047
December	58,342	39,930	7,598
1940, June	60,582	42,039	7,848
December	65,022	46,007	8,732
1941, June	67,172	48,076	9,612
December	70,791	51,192	11,160
1942, June	72,419	53,433	12,383
December	88,478	67,277	15,410
1943, June	96,329	73,464	17,421
December	106,647	81,707	20,449
1944, June	117,386	90,373	22,504
December	129,204	99,033	25,307
1945, June	138,428	106,148	26,746
December	151,547	116,030	28,515
1946, June	147,150	110,718	28,245

[1] Exclusive of interbank deposits.

SOURCE: *Banking and Monetary Statistics*, pp. 18, 78, 413. *Federal Reserve Bulletin*, December 1944, pp. 1206, 1204; September 1946, pp. 301, 304.

TABLE F-7.—U. S. GOVERNMENT SECURITIES HELD BY COMMERCIAL BANKS, BY CALL CLASSES
(In millions of dollars)

End of month	No. of banks	Within 1 year		1–5 years		5–10 years		10–15 years		15–20 years		Over 20 years		Total	
		Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent
1941, June......	5,829	2,603	13.7	8,630	45.4	4,212	22.2	2,756	14.5	813	4.3	...	...	19,012	100
December....	5,793	2,968	14.4	8,643	42.0	5,526	26.8	2,162	10.5	566	2.7	717	3.5	20,583	100
1942, June......	5,780	4,630	18.6	8,860	35.5	8,241	33.0	1,945	7.8	587	2.4	670	2.7	24,933	100
December....	5,751	12,524	32.3	10,894	28.1	12,034	31.0	2,014	5.2	592	1.5	694	1.8	38,752	100
1943, June.....	5,785	19,658	40.4	12,358	25.4	13,160	27.0	2,096	4.3	550	1.1	835	1.7	48,659	100
December....	6,239	20,647	37.3	14,706	26.6	16,248	29.3	2,273	4.1	623	1.1	856	1.5	55,353	100
1944, June......	6,787	24,736	39.1	16,168	25.6	19,322	29.0	2,299	3.6	763	1.2	939	1.5	63,226	100
December....	7,415	24,100	33.6	23,438	32.7	19,857	27.7	2,498	3.5	772	1.1	1,034	1.4	71,699	100
1945, June......	7,403	25,291	32.8	24,327	31.6	23,367	30.3	1,872	2.4	997	1.3	1,231	1.6	77,085	100
December....	7,382	30,504	37.0	25,096	30.5	20,891	25.4	3,465	4.2	67	0.1	2,354	2.9	82,379	100

SOURCE: Bulletin of the Treasury Department.

SECTION G

TABLE G-1.—FEDERAL EXPENDITURES, 1931–1940, AND ESTIMATED FEDERAL EXPENDITURES, 1946–1956 (CRUM
(In millions of dollars)

Inescapable expenditures	Average, 1930–1940	Fiscal 1940	Average, 1946–1956
Interest on the public debt	778.4	974	5,000–6,000
Military outlays	892.0	1,580	5,000–9,000
Provision for veterans	904.4	542	2,000
Aids to agriculture	422.2	1,017	1,000
Social security, net outlay basis	207.8	477	1,000–2,000
Nonmilitary operations	699.7	851	1,000–2,000
Annual average, total inescapable expenditures (*a*)	3,904.5	5,441	15,000–22,000
Discretionary expenditures	**Average, 1930–1940**	**Fiscal 1940**	**Aggregate for decade, 1946–1956**
Foreign items:			
Relief and rehabilitation	......	....	1,000–2,000
Peacetime lend-lease	......	....	1,000–2,000
Currency stabilization	......	....	0
Investment abroad	......	....	0–2,000
Domestic items:			
Debt retirement	0	0	0
Public works	730.9	933	10,000–15,000
Subsidies to transport	343.5	238	5,000–8,000
Subsidies to other industry			0–5,000
Further aid to agriculture	26.9	121	0–10,000
Relief	1,614.1	1,989	5,000–12,000
Further aid for veterans	......	....	5,000–10,000
Further social security	......	....	5,000–15,000
Total discretionary expenditures	2,715.4	3,281	32,000–81,000
Annual average, total discretionary expenditures: 1946–1956 (*b*)	......	....	4,000–7,000
Annual budget (*a* plus *b*), 1946–1956	......	....	19,000–29,000
Average annual budget, 1946–1956	......	....	24,000

SOURCE: *Harvard Business Review*, Summer 1944, p. 432.

Table G-2.—Federal Postwar Budget (Hansen-Perloff)
(Moderately high levels of private investment assumed)
(In billions of dollars)

	Federal expenditures on own functions	Grants to states and localities	Total
otal cost payments	23.0	3.0	26.0
ilitary outlays	6.0	...	6.0
eterans' benefits	2.0	...	2.0
ocial insurance	3.5	...	3.5
1. Old age			
2. Permanent disability			
3. Unemployment			
4. Temporary disability			
ealth:	2.0	0.2	2.2
1. Health insurance			
2. Public-health services			
ublic welfare	...	0.8	0.8
ducation	...	1.0	1.0
ublic development and improvement projects:	2.5	1.0	3.5
1. Transportation			
2. Forestry			
3. Agriculture and soil conservation			
4. Irrigation			
5. Flood control			
6. River valley development			
7. Lending operations—rural electrification, etc.			
8. Urban redevelopment			
9. Public housing			
10. Public-service enterprises			
11. Other public works			
12. International loans and development projects			
nterest on public debt	6.0	...	6.0
esidual overhead administration	1.0	...	1.0

Source: Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in the National Economy*, p. 232.

TABLE G-3.—POSTWAR OVER-ALL BUDGET (HANSEN-PERLOFF)
(Moderately high levels of private investment assumed)
(In billions of dollars)

	All governments	Federal (own functions)	State (own functions)	Local (own functions
Total cost payments	36.0	23.0	3.6	9.4
Military outlays, protection	6.8	6.0	0.2	0.6
Veterans' benefits	2.0	2.0	...	...
Social insurance:	3.5	3.5	...	...
1. Old age				
2. Permanent disability				
3. Unemployment				
4. Temporary disability				
Health:	2.6	2.0	0.3	0.3
1. Health insurance				
2. Public-health services				
Public assistance	1.6	...	0.8	0.8
Education	4.0	...	0.5	3.5
Public development and improvement projects:	7.0	2.5	1.5	3.0
1. Transportation				
2. Forestry				
3. Agriculture and soil conservation				
4. Irrigation				
5. Flood control				
6. River-valley development				
7. Lending operations—rural electrification, etc.				
8. Urban redevelopment				
9. Public housing				
10. Public service enterprises				
11. Other Public works				
12. International loans and development projects				
Interest on public debt	6.6	6.0	0.1	0.5
Residual overhead administration	1.9	1.0	0.2	0.7

SOURCE: Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in the National Economy*, p. 230.

SECTION H

Current Postwar Tax Plans

A number of postwar tax plans have attracted public attention during recent months. ɔur of them are outlined in this section.[1] They are included because of the interest shown ɏ the general public in these plans.

These plans have one thing in common: they all agree that the federal tax structure ɛeds a thorough overhauling and that every effort must be made to stimulate free, private ıterprise in the postwar years.

The Lutz plan stresses strongly "John Marshall's famous dictum, so often quoted ıd as often disregarded—'The power to tax involves the power to destroy.'" Prof. Lutz lds: "Yet, despite the conclusion to which logic and reason lead, taxation has become ɛstructive at many points and in many ways. This has not been altogether accidental, for ıere is more than a little evidence of destructive intention in various quarters."

The Twin Cities Plan emphasizes that "unless capital ventures in increasing amounts ; our war production diminishes and our local force expands year after year, our economy ıay become static or even retrograde."

The Ruml-Sonne Plan insists that "all of us—Business, Labor, and Agriculture—agree ıat there must be adequate incentive to encourage risk and responsibility; otherwise dollars ıved will not be dollars dared for backing new possibilities for new jobs opened by new leas, nor will the new ideas themselves be forthcoming."

The C.E.D. Plan points out that "the main domestic problem of the American ɛople, when hostilities end, will be to achieve a high level of production and employment. ontinuing large-scale unemployment cannot be tolerated, either among the millions of ɛturning soldiers, or among the more numerous millions now engaged directly or indirectly ı war work. The postwar tax plan proposed here has been designed with that problem upper- ıost in mind."

All four tax plans are based on an assumed high level of net national income. The utz Plan mentions a national income of at least 125 billion dollars. The Twin Cities Plan ssumes a national income of 120 billions based on the 1942 level of prices. The Ruml-Sonne lan, on the other hand, considers its tax proposals in relation to a national income of 140 illion dollars at the price level of 1943; and the C.E.D. Plan uses the same figure as a goal for ıe net national income.

The three last-mentioned plans reckon their estimates on the basis of an 18 billion ollar federal budget, while the Lutz Plan states that a federal budget of 15 billion dollars ıould be an outside figure.

[1] Harley L. Lutz "A Postwar Tax Program," herein referred to as the "Lutz Plan"; a program written by ɛardsley Ruml and H. Chr. Sonne entitled "Fiscal and Monetary Policy," herein called the "Ruml-Sonne Plan"; plan submitted by businessmen and lawyers in Minneapolis and St. Paul with the title "The Twin Cities Plan—ostwar Taxes—A Realistic Approach to the Problem of Federal Taxation," herein called the "Twin Cities Plan"; ıd a plan proposed by the Research Committee of the Committee for Economic Development, called "A Postwar ederal Tax Plan for High Employment," herein referred to as the "C.E.D. Plan."

The Lutz Analysis of the Other Plans

In an article entitled "Postwar Tax Plans,"[1] Prof. Lutz raises some fundamen questions. Concerning the whole matter of government receipts and expenditures he say "The key to a happy and sensible solution is moderation, but there cannot be moderate tax without moderation in expenditures; and there can be no moderation in expenditures if t federal government is to be regarded as a source of bounty for everyone who has a litt trouble with his own finances. If the aids and grants and bonuses and subsidies were clean out and kept out of the federal budget, there could be such moderation in taxes as wou make almost any postwar tax program acceptable and feasible, with liberal room for de retirement besides."

Another fundamental point deals with the national income. Prof. Lutz' pertine remarks are as follows: "An important aspect of the problem of national income is the que tion of how to get it down from the fantastic, inflated war level to such amount as assumed to be the desirable postwar normal. The technique of building up, or inflating, t national income has become fairly familiar as a result of the recent experiences in that dire tion. But no one of the experts on national income has proposed a technique for reducing it

The plans differ also considerably in the details of their proposals. The Lutz Pl advocates a federal retail sales tax of 10 per cent. The Twin Cities Plan is content with 5 per cent sales tax, while the Ruml-Sonne Plan flatly states that "no general sales tax shou be imposed."

As regards the income taxes, the plans differ on both the individual income tax ar the corporate income tax. Prof Lutz is irrevocably opposed to progressive income taxes in ar form, while Ruml and Sonne stress that "the graduated progressive individual income t should be relied on as the chief source of revenue." The Twin Cities Plan, although inclu ing both corporate and individual income taxes, insists that "relatively heavy corpora income tax rates are not as harmful to the private enterprise system as are heavy individu income tax rates." The C.E.D. Plan proposes that at least half of total federal revenues shou come from the graduated personal income tax.

Prof. Lutz advocates a flat 5 per cent tax on individual gross incomes and no corpor tion tax. And Ruml and Sonne recommend that federal income taxes on corporations shou be abolished. The Twin Cities Plan prefers to keep the present corporation taxes large intact with the exception of certain punitive taxes and wartime measures. The C.E.D. Pl takes the position "that the government should obtain its share of stockholders' income *little as possible through the corporations*, and as much as possible by necessary changes in the tax laws applying to that income when individuals actually receive it."

The excise taxes and customs receipts are calculated in almost identical ways in four plans.

Prof. Lutz [2] makes a comparison between the Twin Cities Plan and the Ruml-Son Plan in terms of the yields of the taxes recommended, as shown conveniently in t following table:

[1] *The Tax Review*, August 1944.
[2] *Ibid.*

Tax	Ruml-Sonne Plan, billions of dollars	Twin Cities Plan, billions of dollars
ıdividual income	13.0	5.0
orporation franchise and retained earnings	1.0	5.0
ıles tax	....	2.8
xcises and miscellaneous	4.0	5.2
Total	18.0	18.0

Commenting on this table, he writes that "it is possible to get $13 billion under the ıdividual income tax, in an $18 billion budget, but it is by no means clear that it would be ise to do so. Revenue stability is highly important, and federal experience with net income ıxes reveals an extraordinary degree of instability with varying economic conditions. The ɛmarkable record of the British revenues, which are derived in almost equal proportions from irect and indirect taxes, deserves careful consideration in our postwar tax planning.

"From this standpoint the diversity of revenue sources in the Twin Cities Plan offers definite advantage over the narrow base and heavy concentration of taxes in the Ruml-ɔnne Plan. The latter, having put so many of its eggs in one basket, must then watch that ısket most carefully. That is, there must be no recession of business activity, no slackening f employment, no decline of income. Messrs. Ruml and Sonne believe that the federal gov-ɾnment can and should so control the economy, through budgetary operations, as to avoid psetting the basket of eggs. This evidently involves pump-priming deficits on occasion and steady growth of the public debt, for it will never be convenient to begin debt redemption. ıch control is also likely to interfere with the vigorous operation of private enterprise."

The divergent views on the anticipated volume of national income and on the tax eatment of corporations in the Twin Cities and Ruml-Sonne plans lead, according to rof. Lutz, to some interesting variations in the proposals for the individual income tax.

The individual income tax rates may be briefly compared as in the accompanying ıble.

	Twin Cities Plan	Ruml-Sonne Plan
ssumed national income, billions of dollars	120	140
ormal tax rate, per cent	10	16
ırtax rates, per cent	6–50[1]	1–50
come exempt from surtax	$2,000	$2,000
come subject to maximum surtax rate	Over $300,000	$200,000 and over

[1] The rates to be applied if a sales tax is also levied. Without a sales tax, the surtax rates would rise to 65 per cent on income above $500,000.

"In view of the similarities in rates," Prof. Lutz continues, "the difference in esti-ıated revenue is surprising. The Twin Cities Plan is estimated to produce $5 billion, while ıe Ruml-Sonne Plan is estimated to produce $13 billion in individual income taxes.

"The issue of tax policy involved could not be more squarely joined. One group of usinessmen seeks a material reduction of personal income tax rates on the ground that the ıdividual investor must be motivated to take risks and to supply venture capital. This logic

is marred by limiting the tax advantage to dividend income, since the funds for new inve ment will come from all forms of income, insofar as the taxes leave any margin to be invest

"In contrast, another group of businessmen proposes to transfer the bulk of the t load to individuals, on the theory that management should be free to make decisions witho the complications and distortions of taxation." [1]

The most pertinent details of the plans are presented below. Almost without exce tion, *the summaries have been prepared using the exact wording in each instance of t individual authors*. The *arrangements* of the summaries are *not*, however, those of the autho The programs will be taken up in the following order: (1) the Lutz Plan, (2) the Tw Cities Plan, (3) the Ruml-Sonne Plan, and (4) the C.E.D. Plan.

Lutz Plan[2]

The choice that is presented here is one between continuance of the present top-hea federal structure and a streamlined federal administration that could be smaller, more compa and more efficient because it would have less to do. It is also the choice between taxation th can destroy and taxation that will stimulate vigor and growth. Finally, it is the choi between supporting the government and being supported by it.

Some time ago, Prof. Lutz outlined a plan[3] of distribution of taxes among feder state, and local governments which appears to offer the maximum possibilities of automat restraint upon the abuse and the destructive use of the taxing power. In outline, this propos is as follows:

1. Federal Revenue Sources:
   - (*a*) Customs
   - (*b*) Excise taxes on commodities
   - (*c*) General sales taxes
   - (*d*) A flat-rate tax on individual gross incomes collected at sources in the greates degree possible
   - (*e*) Pay-roll taxes for social security benefits

2. State Revenue Sources:
   - (*a*) Death taxes
   - (*b*) Business taxes, including taxes on business net income
   - (*c*) Taxes on individual incomes, at proportional or progressive rates as may l desired
   - (*d*) Gasoline and motor-vehicle taxes

3. Local Revenue Sources:
   - (*a*) The property tax, a field now being entered by the federal government vi the use tax on automobiles and boats
   - (*b*) Miscellaneous local sources
   - (*c*) State aids and grants

[1] *The Tax Review*, August 1944, p. 35.

[2] A concentrated summary of the plan as published.

[3] *Financing the War*, December 1941.

The revenues suggested for the *federal government* in the above scheme possess the ollowing characteristics:

. Productivity

The general sales tax and the tax on gross individual incomes would be much less ffected by variations in economic activity than are the taxes on business and individual net ıcomes which now constitute so large a feature of the federal tax program. The taxes ecommended for federal use will produce their revenue currently, with little lag between :vy and collection.

. Universal Distribution

The federal government exists to serve all of the people, and all parts of the country. t is both logical and just that the cost of services intended to benefit all citizens and all ections be met by federal taxes which are borne in some degree by all citizens. The populous reas would continue, as under the present federal tax methods, to contribute the bulk of the ederal revenues, but there would be a wholesome diffusion of the federal tax load that is npossible under the existing system.

The rate of withholding tax on individual income payments might be used as the exible factor in federal budgeting. That is, this rate could be adjusted from year to year s required in order to produce the remainder of the revenue needed, above other tax receipts, o balance the budget. Since such a tax would reach every corner of the nation, changes in s rates would immediately apprise every voter of the significance of the spending policies being roposed or undertaken in Washington, and there would thus be provided an acid test of hether or not these policies were being approved.

. Elimination of the Excesses of Progressive Taxation

Progressive taxation of incomes and estates at the rates now found in federal tax ıws can have only one result; namely, the destruction of the private enterprise system and f the economic liberties which are dependent for survival upon that system. The present ederal tax system has "frozen" the economic order at its current stage of development.

The crowning irony of all postwar planning for full employment and the restoration f free enterprise is that the planners are taking no account whatever of the destructive ffects of the progressive income tax. The only way to achieve the expanding, dynamic conomy and the high level of national income for which the planners plan, aside from ıflation, is by the creation of new large mass production industries.

No new large-scale mass production industry can arise in this country under the rogressive tax system, because the tax would absorb the funds required for expansion while : would destroy all incentive to expansion. Progressive taxation is the most powerful ıstrument for the peaceful achievement of the socialist state, and this purpose constitutes ıe only valid argument in its support.

. Elimination of Federal Waste

Paralleling the concentration of fiscal power in Washington has gone the concentration f fiscal waste. As the federal government has moved toward absolute domination of revenue esources, it has become correspondingly wasteful and imprudent. . . . Decentralization of

fiscal power will compel the introduction of a new and higher standard of values in t federal spending. It will restore to effective operation the principle that the people shou support the government instead of being supported by it.

This brings up the advantages of the arrangements of revenues proposed above : *the states:*

1. *Preservation of the States as Integral Members of a Federal Union*

The division of revenues suggested here will improve state revenues. As this occu the states will become less dependent upon, even wholly independent of, the federal treasu There is no other way of effectively restoring the states to a position of proper balance a influence, against the federal government, except to provide them with larger revenues whi are entirely within their own control.

2. *Restoration of Private Enterprise*

Changes of governmental policy at points other than taxation will be required if t enterprise system is to be revitalized, but the tax relief that would be supplied by the abo program would be an enormously encouraging move in the right direction.

3. *Equalization between Debtor and Creditor Areas*

Under the program proposed here, there would emerge a certain degree of competiti among the states to attract business and residents. When and as expressed through the fo of tax adjustments, such competition may be regarded as wholly desirable.

The present approach to this problem (namely, the disparities of wealth, income, a business activity as between debtor and creditor areas), which is federal taxation of t creditor areas to provide funds for the support of the debtor areas, is wrong in princi and futile in practice.

The question of the federal budget should be anticipated by offering some appro mations, based on the following assumptions:

1. The proposed plan will stimulate production and employment, thereby afford prospect of the high-level national income for which all planners ask.
2. The business activity that would be engendered by the relief from federal ta and other interferences will make possible a national income of at least 1 billion dollars.
3. Given high-level general prosperity, there will be no need for federal aid expen tures for agriculture, for state subsidies, or for relief.
4. Therefore, a much smaller federal budget will be required than would be necessa if the federal government were to finance and support the whole economy.

On the foregoing assumptions, a federal budget of 15 billion dollars should be outside figure.[1] The following figures are suggestive of what its main subdivisions might b

(1) Interest on the public debt, 5-6 billion dollars.
(2) The postwar defense establishment, 5 billion dollars.

[1] Prof. Lutz has now revised these estimates. The most important change is made in the item "postw defense establishment," which he now estimates at 3.2 to 4.8 billion dollars as compared with 5 billion in earlier estimates.

(3) The civil departments, 3 billion dollars.
(4) Debt retirement, 1 billion dollars.
(5) Total, 14-15 billion dollars.

The federal revenues under the proposed allocation of taxes would be approximately as follows:

(1) Federal retail sales tax at 10 per cent, 6-7 billion dollars.
(2) Customs, 5 billion dollars.
(3) Excise taxes, 3 billion dollars.
(4) Tax on individual incomes at 5 per cent, 5 billion dollars.
(5) Total revenues, 14.5-15.5 billion dollars.

The social security trust-fund transactions would be outside of this arrangement.

Ruml-Sonne Plan[1]

The specific tax suggestions rest on two general propositions:

1. Tax revenues should balance expenditures at some agreed level of high employment and high production, and should provide for the amortization of the national debt when employment and production exceed these levels, but not before.

2. Management, whether industrial, commercial, or agricultural, in general should be permitted to conduct its business affairs free of federal income-tax considerations.

Recommendations

1. Federal income taxes on corporations should be abolished, provided that measures are at the same time adopted to prevent the use of the corporate form as a device (*a*) to avoid payment of individual income taxes and (*b*) to secure undue tax advantages over partnerships and unincorporated businesses. A small franchise tax of 5 per cent on corporations is suggested.

2. The graduated, progressive, individual income tax should be relied on as the chief source of revenue. This tax, with other revenues, should be levied at rates that would balance federal expenditures at high employment levels.[2] Substantial reduction from present rates is both possible and desirable.

3. No general sales tax should be imposed.

4. Excise taxes on tobacco, alcoholic beverages, and perhaps gasoline should be retained at approximately the levels of 1943.

5. The financing of the social security program should be treated differently for (*a*) federal old-age insurance and (*b*) unemployment insurance. Concretely, (*a*) the federal old-age insurance system should be neutral with respect to its fiscal and monetary influences. There should be levied taxes sufficient to meet the then current disbursements, the tax rate on old-age insurance should be lowered, or the benefits and disbursements extended, or both. Reserves should not be permitted to accumulate. (*b*) Unemployment insurance reserves should be

[1] A concentrated summary of the plan as published.

[2] For purposes of this discussion, based on current responsible estimates, Ruml and Sonne define high employment as 55 million persons employed in 1943 at 40 hours a week. This level of employment would produce about 140 billion dollars of money income payments to individuals at 1943 prices.

compensatory; that is, rates should be set to produce income to balance outgo at high emplo ment, and reserves should accumulate only after we have reached high levels of employme and production.

The accompanying tables suggest how the postwar budget might look under t policies recommended in the Ruml-Sonne Plan. All estimates are based on a national net incor of 140 billion dollars and relate to an early postwar year, but after substantial progress reconversion. The tables have been prepared after consultation with economists of the Nation Planning Association, Committee for Economic Development, and Federal Reserve Bank New York, and after the study of certain memoranda prepared under the auspices of t National Bureau of Economic Research; but of course they do not represent the views these institutions. The figures are submitted by the authors as representing their consider judgment as to postwar possibilities; they are not intended as a forecast, and they are subje to wide variations depending on events and facts as yet unknown or, if known, incorrect appraised.

FEDERAL BUDGET EXPENDITURES
(In billions of dollars)

Unallocated and miscellaneous	1.5
Interest on debt	5.5
Military and naval	5.0
Veterans	2.0
Agriculture	1.0
All other government expenses[1]	2.0
Foreign reconstruction and development loans	1.0
Total	18.0

[1] "Public works" is included at what is intended to be a normal level of continuing necessity. Optional or accelera items to relieve unemployment are excluded, since the budget is set up on the assumption of high employment. Old-age and rel payments assumed to balance old-age security taxes; unemployment insurance, to balance unemployment taxes.

FEDERAL BUDGET RECEIPTS
(In billions of dollars)

Individual income tax	13.0
Excises	3.0
Corporation franchise and retained earnings	1.0
Estate and gift	0.5
Tariff and miscellaneous	0.5
Total	**18.0**

NOTE: Old-age security taxes assumed to balance disbursements; unemployment insurance taxes, to balance disbursements.

Tax-rate structure on the above items would be as follows:

Individual income tax:

Exemptions—$500 for the taxpayer and each dependent including husband or w

Normal rate—16 per cent

Surtax ceiling at 50 per cent

Capital gains, present rates

Excises:
Tobacco and alcohol at 1943 rates; some gasoline revenue if needed

Corporation tax:
Franchise, 5 per cent on net earnings
Normal rate—16 per cent on undistributed earnings which might or might not be credited to individuals when disbursed

Estate and gift:
Present rates

Tariff and miscellaneous:
Larger imports, lower rates, same yield

Twin Cities Plan[1]

Basic Premises

In the postwar years the United States must have as its broad objective a system of taxation that will be the least deterrent to high levels of production, wages, and employment.

This study places emphasis on certain vital factors that should be incorporated in any postwar tax plan:

1. Sanity in expenditures is as much a part of a tax program as is the tax levying itself.
2. There must be adequate funds to meet the cost of the federal government.
3. A plan for the retirement of the debt must be instituted.
4. Private venture capital must be made available.
5. Income from corporate industry should not be taxed as at present.
6. Taxes must be more equitably distributed and some portion of the federal revenue should be derived from the enormous amount of our national income that otherwise goes virtually untaxed.
7. A revision should be made of the estate and gift tax laws providing more equitable and economically sound treatment.
8. The tax structure, once enacted into law, must have permanence, particularly those features having to do with corporate and individual income taxes.
9. The enactment into law, as soon as possible, of a tax program in its entirety.

Summary of Recommendations

The principles of ability to pay and the graduated income tax should be retained and as much revenue as possible should be obtained from the middle and upper incomes without destroying the incentives which are necessary to produce a vigorous revival of the free enterprise system. Obviously the remainder of the revenue required by the federal Treasury must come from the lower incomes.

There is no time to attempt to follow ingenious new theories for federal taxation which will have undetermined repercussions on the economy and pile additional uncertainties upon business management.

[1] A concentrated summary of the plan as published.

The Main Thesis

The thesis of this plan is that relatively heavy corporate income-tax rates are not so harmful to the private enterprise system as are heavy individual income-tax rates, for the reason that the latter shut off at the source all possibility of venturing of capital by individuals.

Taxing the Corporation

Corporation taxes should be utilized to the greatest extent possible in order to lighten the burden of individual income taxes. In fairness to smaller corporations and to help them grow, it is recommended that the rates for those with incomes of not over $50,000 should be the same as the graduated normal and surtax rates provided by the Revenue Act of 1942.

Corporations having net incomes in excess of $50,000 should continue to pay the combined normal and surtax rate of 40 per cent. This rate is higher than any ever levied before, and its continuance is recommended, conditioned only upon the repeal of certain punitive taxation and distinctly war tax measures: the excess-profits tax, the capital stock tax, the declared value excess-profits tax, etc.

With the repeal of the excess-profits tax provisions of the internal revenue code, the provisions permitting unused excess-profits credits to be carried back for 2 years should be retained.

The Income Tax

1. It is recommended that 40 per cent of dividends received by individual stockholders from domestic corporations be excluded from gross income; that is, the individual stockholder would report as gross income 60 per cent of the amount he received as a dividend from a domestic corporation and this would be taxed at the regular individual rates.

2. The plan proposes two alternative methods of individual income taxation: (1) an individual income tax with a maximum effective rate of 65.55 per cent and (2) an individual income tax with a maximum effective rate of 48.23 per cent, to be imposed in connection with a 5 per cent sales tax (see below). The plan favors the second alternative because under it venture capital and investment would presumably be favored.

It is one of the basic concepts of this plan that the shifting of not more than 2 billion dollars in the tax burden is the key to the entire question of whether or not the private enterprise system will continue to function in a vigorous manner.

If this 2 billion dollars or any substantial part of it is to be removed from the taxes of the low-income group on the political ground that there are more voters in that area, the free enterprise system will be seriously jeopardized.

The Sales Tax

If a sales tax is to be imposed, it should be in the nature of a general sales tax without exemptions and in normal times should be moderate in amount.

Miscellaneous Recommendations

Capital gains and losses. It is recommended that the definition of what constitutes a capital asset be changed so as to exclude all assets held for less than 6 months. The existing

methods of treating gains and losses from compulsory or involuntary conversion and from dispositions of certain property defined as "property used in the trade or business" would be retained.

Current tax payment and withholding. It is recommended that all taxpayers deriving income from wages, salaries, etc., which are subject to withholding need file no return unless the taxpayer is entitled to a refund, or the amount still due from the taxpayer is $5 or more.

Retroactive provisions. To ensure that retroactive amendments adopted to provide relief for some do not penalize others, the operation of such amendments should be made optional with the taxpayer.

Debt retirement. This study does not attempt to forecast any level of national income in the postwar period. If the national income is only equal to or below the 120 billion dollar level deemed necessary to produce reasonably full employment, no debt retirement should be attempted. But, considering this plan over a period of years, the receipts should exceed the current expenses of the government by substantial sums, and this surplus should be used to reduce the debt.

It is concluded that the accompanying table presents the most equitable and soundest allocation of the postwar revenue sources.

	Millions of Dollars
Miscellaneous revenues	300
Customs	400
Estate and gift taxes	500
Excise taxes	4,000
Income tax:	
Corporation	5,000
Individual	5,000
Sales tax, 5 per cent	2,800
Total	18,000

C. E. D. Plan[1]

The federal tax structure proposed in this plan is estimated to yield a total of from 17.1 to 19.6 billion dollars at a net national income of 140 billion, the amount varying with the three suggested schedules of income-tax rates presented in the accompanying table. It should be emphasized that these estimates are not forecasts of the amount which will be raised in taxes after the war. The actual yield will depend to a large extent on the level of national income which is achieved. The net national income figure of 140 billion dollars at 1943 prices has been used as the basis for the estimates, because careful studies by a number of independent agencies indicate that approximately this income level will be achieved if a satisfactory high level of employment is attained for the years immediately after the war. This figure is used because it represents an important *goal* for the postwar economy; it is not presented as a *forecast.*

[1] A summary of the plan as published.

SUMMARY OF ESTIMATED YIELD OF TAX PROPOSALS AT A NET NATIONAL INCOME OF 140 BILLION DOLLARS
(In billions of dollars)

Type of tax	Yield on basis of standard rate, for personal income and corporate income, of		
	16%	18%	20%
Personal income tax, excluding withholding tax on dividends	9.9	10.9	11.9
Corporate income tax, including withholding tax on dividends	1.8	2.1	2.3
Estate and gift taxes	0.9	0.9	0.9
Excises on tobacco, liquor, and gasoline	2.9	2.9	2.9
Customs	0.8	0.8	0.8
Miscellaneous receipts	0.8	0.8	0.8
Total, excluding social security taxes	17.1	18.4	19.6

General Outline of the Plan

At the core of the proposed tax program are the following five major conclusions o the Committee as to the necessary line of action:

1. The graduated personal income tax should provide at least half of the total federa revenues needed, with a rate structure which would give taxpayers at all levels of incom marked relief from the present heavy burdens.

2. Excise and sales taxes should be lightened as much as total revenue needs will permi

3. Taxation applied directly against business operations should also be lightened a much as total revenue needs will permit.

4. Insofar as possible, serious inequities of the present tax system should be removed.

5. Federal taxation should be heavy enough both to end the long uninterrupted ris in the federal debt and to produce surpluses which will make possible substantial deb reduction, when a satisfactory high level of production and employment has been reached.

Specific Recommendations

Taxes on individual incomes

1. Personal exemptions should be raised by eliminating the present 3 per cent norma tax, which allows no credit for dependents. The present exemptions for the regular incom tax of $500 for each taxpayer and for each dependent should be retained.

2. The present combined tax of 23 per cent for the lowest bracket of taxable incom should be replaced by a single standard tax of 16 to 20 per cent, depending upon revenu requirements.

3. Tax rates on incomes above the lowest taxable bracket should also be substantiall reduced throughout the range.

4. Double taxation of dividend income should be eliminated.

5. Discrimination against persons with irregular incomes should be removed so far a possible, through equalizing tax burdens by means of some income-averaging device.

6. Income from all future security issues by state and local governments should be made fully taxable.

7. Present differential treatment of capital gains and losses should be retained until substantial reductions in corporate and personal income taxes have been effected, and adequate provision for averaging income over a period is permitted. If and when these conditions are met, capital gains should be fully taxable like other income and full deduction for capital losses should be permitted. Under such circumstances, capital gains and losses should be recognized at transfer by gift or at death.

8. There should be rigorous enforcement to prevent underreporting at all levels of income and in all occupations.

Excise taxes

All the present federal excise taxes should be repealed with the exception of those on liquor, tobacco (perhaps also gasoline, if needed), and other excise taxes levied for social and regulatory purposes.

Taxes on business

1. Present corporate income taxes should be replaced by a single tax at a flat rate, the same as the proposed standard rate of 16 to 20 per cent for individual incomes.

2. The excess-profits tax should be repealed.

3. The "declared-value capital-stock excess-profits tax" should be repealed.

4. Present taxation of personal holding companies should be retained, as well as the existing provisions which penalize unreasonable accumulation of earnings.

5. Both corporate and noncorporate businesses should be allowed to carry forward losses from business operations to apply against subsequent earnings for a period of 6 years.

6. Both corporate and noncorporate businesses should be permitted greater latitude in making annual allowances for depreciation.

Other Tax Problems

Estate and gift taxes. A careful overhauling of present taxes on estates and gifts should be undertaken. Current laws permit wide avenues of escape from death taxes. These are made possible by the use of gifts, trusts, and powers of appointment. The effect is substantially to reduce the amount of revenue which might otherwise be collected from the estate tax.

General agreement exists that taxes imposed at death are less likely to have a depressing effect on incentives to enterprise than the collection of equal amounts from businessmen during their lifetime. There is a strong argument, therefore, from the standpoint of productive employment—apart from considerations of social desirability—for less emphasis on the tax burden on current incomes and more emphasis upon taxes collected at death.

The Committee believes that increased revenues can and should be obtained from death and gift duties by closing the present avenues of escape; if this is successfully done, increased revenue could be raised and still permit some moderation of the present steeply graduated tax rates on estates.

Tariff duties. Customs revenues are now accounting for little more than 1 per cent o total federal tax collection and in the postwar period it is anticipated that at present rate they can account for but little more than 2 per cent. It is, therefore, somewhat surprisin to recall that for 150 years prior to World War I customs duties provided the chief sourc of all federal revenues. The tariff system presents highly complex problems and will be con sidered in a later study of this Research Committee. Nevertheless, it is pertinent, in this mor general study of postwar taxation, to point out that substantially increased revenues migh be obtained from this source if it were decided to revise downward the present prohibitivel high structure of tariff rates, and create a system of duties primarily designed to rais revenues rather than to prohibit imports.

Social security revenues. This Committee believes that a careful reexamination of th whole policy of social security revenues is desirable at the earliest possible date. Since it introduction in 1935, social security taxation has been operated on the theory of building u substantial reserves. There are reasons to doubt the validity of such a theory as applied to national tax structure. Strong arguments also exist for balancing social security income an outgo separately from the rest of the federal budget.

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